STONYHURST PHILOSOPHICAL SERIES

POLITICAL ECONOMY

BY CHARLES S. DEVAS

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REV. P. CONDON

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POLITICAL ECONOMY.

BY

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REV. P. CONDON

Οὐχ ἡ αὐτὴ τῇ οἰκονομικῇ ἡ χρηματιστική.

Aristot. *Polit.* I. 3. 2.

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THIRD EDITION.

(*Seventh Thousand.*)

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PREFACE TO THE SECOND EDITION.

THIS edition has been enlarged, rewritten in many parts, and everywhere revised in view of the many changes in laws, economic conditions, and prevalent opinions since the first edition was published, and in view of the many new books and periodicals on economics, such as the nine volumes of the *Economic Journal*, and the standard work of Professor Bastable on *Public Finance*. The doctrines of the Austrian School and discussions on value have been so much developed, especially in America, as to require more attention than formerly; the teachings of Ruskin are now so much studied as to require a place in a guide book to economics; and questions of practical reform by their nature require frequent revision. I have profited by the many additions of Dr. Walter Kaempfe to the German translation of this work, though not in agreement with all of them. The references to Professor Marshall's *Principles of Economics* have been entirely revised; for his language, if not his doctrine, has been much changed since his work was first pub-

lished in 1890; and all the present references are to the Fourth Edition published in 1898. I wish to acknowledge my obligations in the chapters on Exchange to the second volume of Professor Nicholson's *Political Economy*, and in the chapters on Public Finance to Professor Bastable's work already named. The larger type is meant, as before, for the general reader: the smaller type for students. Also for the convenience of students, numbered paragraphs have been inserted with headlines in thick type; references have been given to easily accessible books; and much care has been taken to make the Index complete.

It is an encouragement to the author to note that several views upheld in this book and opposed to the current teaching of the time, are now widely recognised as true; for example, that consumption requires almost as much study as production; that combination is just as "natural" a force as competition, and may be just as powerful; that neither differential gains nor the "law of diminishing returns" are confined to agriculture. Above all, the main and central doctrine, that economic science is essentially ethical, has made great progress; and this allows the hope that the anarchy and confusion lamented by the late Dr. Sidgwick, may at last be followed by order and agreement.

It is also an encouragement to note a practical movement towards some of the reforms urged in the first edition of this work; for example, the efforts of the legislature to repress usury, to repress fraud, and to enforce employer's responsibility.

I wish to express my many obligations and my debt of thanks to the Rev. Michael Maher and the Rev. Henry Irwin for their continued help, their valuable suggestions, and their correction of the proof sheets.

January, 1901.

PREFACE TO THE THIRD EDITION.

THIS edition has been carefully revised, later figures substituted where possible for earlier, and a brief Appendix added with some explanations and references for the use of students.

The author is glad to note that since the last edition of this book economic opinion has drawn nearer to the principles it upheld, and in four ways: First, the controversy between free-trade and protection that was renewed in 1903, was a confirmation of the principle that the question between them was rather in the concrete than in the abstract, and depended on particular and ever varying circum-

stances. Then the keen desire for some remedy for unemployment confirms the principles of workmen's insurance and of employer's responsibility. Thirdly, the appointment in 1905 of a new Poor Law Commission is a welcome confession of the failure of the existing poor law, that disastrous barrier to individual reformation and to social works of reform. Finally, the danger from a falling birth-rate, pointed out by the author twenty years ago, has at last been realised, and the alarming phrase "race suicide" has been added from across the Atlantic to our language.

But the author must repudiate any claim (which a critic alleged he made) to have been an economic beacon in a dark age. It is true he opposed much of the teaching formerly current in England; but he was anticipated by many German writers, and in England by various insurgents against the yoke of "orthodox political economy," such as Cliffe Leslie, David Syme, Jevons, and Ruskin, to say nothing of ecclesiastical authorities who through good report and evil report have constantly upheld the notions of responsible property, of fair contracts, fair wages, fair prices, the supreme importance of family life, the duty of almsgiving, the wrongfulness of usury. Honour then to whom honour is due.

October, 1906.

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POLITICAL ECONOMY.

PROLOGUE.

§ 1. **Meaning of Political Economy.**—The names political economy, or economics, or economic science, which are all three used as equivalents, express one of the moral or ethical sciences, and thus have as their subject-matter the free actions of men. The simplest division of these moral sciences is to distinguish *general ethics*, dealing with the foundations and nature of morality, from *particular ethics*, dealing with human actions in particular departments. These departments are not of themselves marked out distinctly, but for the convenience of study may be divided into two groups according as men are associated for getting their living and preserving their race, or for keeping the peace and preserving justice. In the one case the family or household, in the other the State or commonwealth is the most conspicuous agency; and thus the study of human actions is called in the one case *economic science*, and in the other *political science*.

These two sciences are intimately connected, and frequently overlap. Thus economic science takes note of colonisation, Government agency, and the laws of contract,

property, and partnership, all belonging also to political science; while political science takes note of public finance, international trade, and the sanitary or moral regulation of consumption (of alcohol, for example), all belonging also to economic science.

The foregoing description of economics will be more fully explained in the Epilogue, and defended against those economists who declare their science to be non-ethical. It resembles Professor Marshall's, which makes Economics "a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of well-being." (*Principles of Economics*, p. 1.) For the family is the prime agency connected with the attainment and use of the material requisites of well-being.

§ 2. **The Word Economic.**—This adjective clearly depends on the substantive economics or political economy, and is used in this Manual of whatever regards the support, enjoyment, or continuance of man's life on earth; and thus frequently has a direct moral reference, and if not, at least an indirect moral reference. Those writers, indeed, who look on economics as the science of man's action in the pursuit of wealth without any regard to morality, naturally make the word economic refer simply to getting or preserving the maximum amount of wealth, much as "economical" is used in ordinary discourse. Thus we meet phrases like "the economic point of view," or "on purely economic grounds," used in contradistinction to the political or ethical point of view; and may hear said, for example, that for Holland to buy all her ironclads and naval stores abroad is best for her from the purely economic point of view, but dangerous politically; or that to allow the slave trade or women's work in mines cannot be condemned on purely economic grounds, but is reprehensible ethically. But as we shall see in the Epilogue, the separation of economics from ethics cannot be carried out consistently; and therefore this use of the term economic is inevitably misleading, and also quite unnecessary. For the point of view of mere wealth can be expressed quite plainly by the word *pecuniary*.

§ 3. **Economic Laws.**—This term, or its equivalent, the Laws of Political Economy, was much misused by the classical economists, who thought such laws were as universal and rigid as laws of

physical science; who imagined such laws to exist where they were non-existent (such as the "Law of Population," in Mill, I. x. 2); and who opposed much good legislation (such as the protection of factory workers and the suppression of usury and adulteration) on the ground that it was against the laws of political economy. But the abuse of the term economic law does not destroy its use, which is to indicate first of all certain physical laws which are important in economics (such as the law of diminishing returns, *infra*, Bk. I. ch. i.), and secondly to indicate certain probabilities of human action in economic matters, namely, that under certain circumstances most men will probably act in a certain way (such as the probability called Gresham's law, *infra*, Bk. II. ch. vi.).

Normal is the adjective corresponding to law in the sense given above, just as "legal" is the adjective corresponding to law in the legislative sense; and we may accept Marshall's definition, "that the course of action which may be expected under certain conditions from the members of an industrial group is the *normal* action of the members of that group." (*Principles of Economics*, p. 106.)

Thus within the limits of a market it is normal for each buyer to seek to buy at the lowest price, and for each seller to sell at the highest. Thus within the limits of a family it is normal for the stronger members to take care of the weaker, and for the parents to seek the welfare of their children. Thus wherever there is a monopoly it is normal for the monopolist to charge the price that he judges will bring him the maximum profit, not the price that will allow the maximum quantity of the monopolised goods to be sold. Thus wherever there are many persons with many interests in common, it is normal for them to unite in associations.

§ 4. **Meaning of Economic Goods: Distinction of Positive from Negative Goods.**—A good is whatever is suitable to man's nature, whether to the whole or to a part, and is so far desirable. Goods which relate to the support, continuance, and enjoyment of man's life on earth can be called economic goods: and to avoid confusion we must make regarding them certain distinctions.

Every action of ours and every choice is directed towards some good, and we must therefore call every object of our desires by the name of a good; but yet, as our condition is fallen, such goods may in fact only satisfy disordered affections, morbid cravings, and the desires of our lower nature; they may be destructive of our true welfare, and opposed to the desire of our better self or of our higher nature. Such, for example, are raw whisky, adulterated beer, opium (other than medicinal), bad books, indecent prints, explosive bullets, the tools of house-breakers. A name, then, is needed to distinguish the goods which an upright man may reasonably desire, and on the other side the goods which minister to folly, to pride, to hatred, to drunkenness, and to debauchery: goods which like those others will fetch their price, often a high one, in the market; but unlike them will issue in degradation and death. The first kind can be called *positive goods*, and the second *negative goods*.

It is true that most of such negative goods can be used under special circumstances for a good purpose, as thieves' tools in the hands of the police, or bad printed matter to light the fires, or bad spirits to neutralise snake poison or revive from a swoon; but the business of science is not with

the peculiar and abnormal, but with the general and normal —*respicit id quod in pluribus accidit.*

Observe that between positive goods, which cause life to be better, and negative, which cause life to be worse, are goods which are wasted unavailingly. Thus Marshall says of England that perhaps a hundred million pounds annually are spent by the working classes, and four hundred million by the rest of the population, in ways that do little or nothing towards making life nobler or truly happier. (*Principles*, p. 786.) And thirty years earlier Ruskin had said: "A great part . . . of the most earnest and ingenious industry in the world is spent in producing munitions of war, . . . filling its stores with all power of the instruments of pain, and all affluence of the ministries of death." (*Munera Pulveris*, § 48, Edit. 1886.)

There is no necessity indeed to follow Ruskin so far as to confine the terms wealth or goods to "the things which the nature of humanity has rendered in all ages the objects of legitimate desire." (*Ibid.* § 34.) All that is necessary is to emphasise with the Scholastics the distinction between morbid and healthy desires, and the difference between *bonum hominis simpliciter* and *bonum secundum quid*. (St. Thomas, *Summa Theol.* 1a 2æ, q. 114, a. 10.)

§ 5. **Distinction of Personal Goods from Material Goods or Wealth.**—Goods which cannot exist apart from definite and particular persons can be called *personal goods*. Such, for example, are (*a*) skill, knowledge, diligence, honesty, docility; (*b*) honour, praise, affection, filial piety, maternal love; (*c*) personal rights and claims, trade-marks, copyright, the good-will of a business, the credit of a merchant; (*d*) personal services of attendants, nurses, doctors, musicians, teachers, lawyers, soldiers, clergy.

Material goods or *wealth* are terms best confined to goods which are external to man and at the same time are corporeal; for example, the air and sunlight, the streams and the forests, pastures and meadows, arable land and garden ground, mines, fisheries, factories, shops, roads, railways, and

ships; domestic animals and farm buildings, tools and implements; bread and wine, garments and jewels, houses and furniture, churches and schools, books and works of art: all these are wealth. But slaves are not wealth, for they are persons; nor skill, for it is not external to man; nor personal services, for they cannot exist apart from a particular person; nor rights and good-will, for they are immaterial.

§ 6. **Meaning of Property.**—This term can be applied to goods which have been appropriated, namely, over which a person or several persons claim rights of exclusive use. It is thus both a wider and a narrower term than wealth: wider, because it includes some personal goods, such as rights, good-will, and slaves, none of which goods are wealth; and narrower, because some goods which are wealth, such as air, light, and trade winds, cannot be appropriated.

The distinction of property from wealth seems desirable, in order to get a proper estimate of public or national wealth. If with Professor Marshall (among other writers) we make a man's wealth synonymous with his property, it is hard to escape the paradox that the enslavement of one half the nation by the other would be a vast increase of wealth, their emancipation a vast decrease. And Mr. Macleod's contention, that wealth consists in legal rights, would make an estimate of national wealth still more difficult; and we should be in danger of the *error dupli* (or counting the same thing twice over), and of making each fresh loan or each fresh charge upon an estate an increase of wealth.

§ 7. **Distinction of Objects of Enjoyment from Means of Production.**—If goods are used for some immediate personal satisfaction they are objects of enjoyment (or of consumption); for example, food,

clothing, dwelling-houses, furniture, pleasure-gardens, theatres; and also medical service, personal attendance, beautiful music, domestic virtues. The act of using such goods can be called *enjoyment* or *consumption*.

Neither of these terms is perfect, for we do not usually speak of consuming music or of enjoying the services of the dentist. But a term is needed; and enjoyment or consumption are the least misguiding, especially the first; the second, however, has been so commonly used by economists that we must take it as an alternative. Only if once used in this sense it must never, without emphatic notice, be used in any other. For it is restricted to a particular kind of human action, and we must no longer speak of an engine consuming coal and oil, or even of an ox consuming hay, but of the expenditure of coal and oil to make the engine work, and of hay to feed the ox.

On the other hand, if goods are used, not directly in present personal satisfaction, but indirectly for the sake of some enjoyment in the future, they are means of production; for example, farms, farm-stock, live and dead, fisheries, mines, quarries, workshops and factories, offices and warehouses, machinery and tools; and also technical capacity and habits of industry. The act of using such goods can be called *production*.

The distinction of objects of enjoyment and means of production, long ago expressed by St. Augustine as *frui* and *uti*, is expressed by Dr. Sidgwick, as far as confined to material goods, by the terms *consumer's wealth* and *producer's wealth*. Other phrases are *consumption goods* and *production goods*, *final* and *intermediate goods*, *direct* and *indirect goods*.

The line between production and consumption or between the goods used for these two very different purposes, is not clearly marked nor to be drawn with precision, any more than the line between day and night, between summer and winter, or between riches and poverty. But this is no good reason for refusing to make the distinction, which in truth is fundamental; production being only for the sake of con-

sumption, and the triumph of art being to reach a maximum of the one with a minimum of the other. And if we are asked whether an oven in a private house is to be called consumer's wealth while a similar oven in a bake-shop is producer's wealth; or what is the precise moment when coal ceases to be a means of production and becomes an object of enjoyment, whether when it reaches the retailer, or leaves his premises, or reaches the premises of the final consumer, or passes from the coal-cellar to the coal-scuttle, or is put on the fire—we can answer that such questions are of no consequence; that some kinds of carrying and repairing may conveniently be regarded as part of the preparatory use of goods, and other kinds as part of the enjoyment of goods; and that our business is to point out the plain fact of the great difference between preparation and enjoyment, or between production and consumption, not to trouble about the obscure point where the one is transformed into the other. (Cf. *infra*, on "The continuity of economic phenomena," at the end of this Prologue.)

§ 8. **Meaning of Value.**—This most important term may be taken to mean the capacity of any good to be valued, that is, to be estimated as desirable, to have importance attached to it as a good. Hence the greater or less importance that can be attributed to a good at any time or place, the greater or less at that time or place is the value of the good.

Value in this sense is not the same as *utility*, which is the capacity of any good to serve its purpose. Thus medicine is useful to a sick child, but not valuable to him; for if he can he will throw it out of the window; but his toys are valuable to him. Thus again, those goods which are sometimes called *free goods*, such as air, water and light, so far as obtainable with no trouble, in any quantity we require, though most useful are not valuable to us, being taken for granted, and not made objects of

valuation. Value, therefore, presupposes not merely recognised utility, but also difficulty of attainment.

A further analysis of the grounds of valuation, and the meaning of *marginal value* as well as the theory of marginal utility will be found in the chapter on the theory of consumption.

§ 9. **Distinction of Individual from Social Value.**—Value as defined above exists wherever men and goods exist. But in the social state, where goods are not simply made and used by separate families, but are *exchanged*, that is, are given up to others for goods in return, we get, as distinct from individual value, the notion of social value, namely, the capacity of any good to have importance attached to it, not merely by an individual or a family, but by a larger social group.

Observe that the two features of recognised utility and difficulty of attainment which belong to individual value, belong also to social value; only the estimate is social or common (*communis æstimatio*) instead of being individual or particular. And the larger the body whose joint estimate is taken, the less will be the influence of individual peculiarities, fancies, and caprices. Also the very fact of there being a social valuation has a great reflex influence on individual valuation (as Dr. Smart points out, *Introd. to the Theory of Value*, pp. 49, 50). The individual is apt to look on other people's valuation as his own, and usually wishes to avoid being whimsical or eccentric in his estimates. Observe also that the estimate by even a large body of men may rate objects very differently from their intrinsic dignity, or national importance, or moral excellence. Generally we pay, says St. Augustine, more dearly for a horse than for a bondsman, and for a gem than for a bondswoman (*De civitate Dei*, xi. 16); and to use Shakespeare's words (*Troilus and Cressida*, iii. 3):

> What things there are
> Most abject in regard and dear [important] in use
> What things again most dear in the esteem,
> And poor in worth!

From what has been said on goods and value, we can answer affirmatively such questions as whether the mild and dry climate of Egypt, requiring so little use of clothing, food, and shelter, is to be reckoned as wealth. It is no less wealth than the furs, stoves, stocks of fuel, and watertight roofs in Norway. But there is less wealth *valued* in Egypt. The climate not being made the object of an estimate, like the furs, the stoves, the fuel, and the roofs. And there is less property, the climate not being capable of appropriation like those other goods.

§ 10. **Meaning of Exchange.**—It is most convenient to use exchange in the wide sense of a transfer of goods to another person in consideration of some return, and to place it in contrast with a gift. Exchange in this wide sense is applicable not merely to dealings with wealth, but to dealings with personal goods: and is applicable not merely to an outright transfer of goods, as in a sale, but also to contracts that keep the two parties still bound to each other in special relations. Such transactions are the contract of hiring services for wages or salary, the contract of letting and hiring material goods such as a farm or house, and the contract of lending and borrowing where there is interest to pay. But to give your services gratis, to allow your premises to be occupied rent-free, and to lend without interest like Antonio, the merchant of Venice, are acts of kindness not exchanges.

It seems clearest to confine the word *merchandise* (or wares) to what is bought and sold, and not to extend it to what is hired, lest we mix up contracts of a very different character and legal aspect. Thus we can speak of the exchange of labour for wages; but had best avoid speaking of the buying and selling of labour. Men indeed can be made merchandise by law, and then we can speak of buying and selling slaves; for there is a genuine contract of sale. We do not indeed alter facts by the names we call them;

and if a lecturer said the Queen bought her prime minister with his salary, and that he sold his services for that price, our Government would not be impaired; but the due apprehension of the facts might be impaired. It is going to the other extreme, and is certainly inconvenient, to limit the word exchange to material goods, and make it stand for the German *Tausch* rather than for *Verkehr*. Only when the word is thus narrowly limited is Thornton's dictum true: "No service whatever can possibly be exchanged."

§ 11. **Meaning of Price.**—This follows from the notions of value and of exchange. Assuming those already adopted, price is the expression of value by a measure. This measure must be a definite quantity of some exchangeable good; and this exchangeable good is generally one used as a medium of exchange, and is thus, as we shall see in the next Book, to be called *money*. In civilised societies, moreover, money is so pre-eminently the measure of value that we can use the word price as synonymous with price in money.

Observe that price sometimes may not properly express value, and then we say the price is too high or too low, above or below the value. But according to the definition adopted here, we must not say, and in fact rarely do say, that the value of a thing is too high or too low. What we may rightly say is that the estimates on which value depends, are often sadly mistaken; that not merely individuals, but whole societies are blind to what truly ministers to their peace, and attach absurd importance to trifles and calamitous importance to negative goods.

§ 12. **Difficulties Surrounding the Definition of Value: Adam Smith and the Modern Austrian School.**—In defining value the economist has a difficult task. For the English word—and the same may be said of foreign equivalents such

as *valeur* or *Werth*—has many current meanings. We habitually speak of the value of money, of getting good value for our money, of a lost note-book being of no value to any one but the owner, of a thing valueless in itself, or of inestimable value; we speak of things at a sale fetching less than their value, and yet of the value of things being what they will fetch; we repeat the Scriptural phrase that men are of more value than many sparrows; and of a foolish man we say that his opinion is of no value. In general the word seems to imply some estimate of some good; but whether the estimate be of a single person or of many; whether the object estimated be simply desired or be ethically desirable; whether the value resides in the good, or in the estimate, or some other good used as a measure, all depends on the particular circumstances of each case.

Adam Smith distinguished **value-in-use** from **value-in-exchange**. By the first he meant the utility of an object from the moral or philosophical point of view; by the second he meant the power of purchasing other goods which the possession of the object conveys. Thus value-in-use he applies to the utility of goods which conduce to the real welfare of man; value-in-exchange he applies to what coincides with price (as defined above). The fortune of the two phrases has been different. He himself concentrated his attention on value-in-exchange (*i.e.*, price), and then among the economists who followed him, with the neglect of the problems of consumption and with the neglect of ethical considerations, naturally enough value-in-use dropped out of account, and was curtly dismissed by Mill with the remark: "Political economy has nothing to do with the comparative estimation of different uses in the judgment of a philosopher or of a moralist. The use of a thing, in political economy, means its capacity to satisfy a desire or serve a purpose." (Bk. III. ch. i. § 2.) But Adam Smith's employment of the term value-in-exchange was accepted by Mill, and to this day in the writings of many English economists, such as Professor Marshall and Professor Nicholson, the term remains the equivalent of price, while they confine the term price to money-price. This is unfortunate; for then we must either be superficial, like Mill, and ignore many grave questions relating to individual and social estimates of the importance of goods; or, if we recognise them, we must strain and force some other word, such as "utility," to express what could be much better expressed by the word value.

The *modern Austrian School* run to the other extreme and apply value to what had better be expressed by some other word. For while defining "subjective value" much as

individual value has been defined above, they give the name of "objective exchange value" to price, and the name of "objective use value" to powers that have no relation to any estimate, for example, the heating power of coal or the fattening power of oil-cake. Still it is a great merit of Jevons and the Austrian School to have renewed the study of the problems indicated by Adam Smith in the phrase value-in-use; to have shown the difference of the two notions value and price; the importance of consumption, the difficulties in the measurement of wealth; and to have brought us back to the truth well stated by Professor Hadley (*Economics*, p. 92), that value is essentially an ethical term.

But to keep it an ethical term we are by no means bound to follow Ruskin's use of terms, whereby value means "the strength of 'availing' of anything towards the sustaining of life, and is always two-fold; that is to say, primarily, INTRINSIC, and secondarily, EFFECTUAL." (*Munera Pulveris*, § 12.) The intrinsic value of Ruskin is thus like the objective use value of the Austrians, with the difference that the power must be for a good purpose—to support life. And this intrinsic value combined with "acceptant capacity" makes effective value, or wealth, *e.g.*, the intrinsic value of a riding horse combined with capacity to ride, make a riding horse into wealth.

The term *real value* sometimes means intrinsic value in Ruskin's sense; sometimes social as opposed to individual value, as when a rustic is said not to know the real value of old china or an old picture, meaning by value the price the goods would fetch in London at a sale; sometimes again real value has been applied, notably by Ricardo, to the cost of production as distinct from actual market value (*i.e.*, price).

Advanced students may consult on the term value the discussion in Dr. Sidgwick's *Political Economy*, Bk. I. ch. ii.

§ 13. **Meanings of Cost and of Labour.**—Cost may be defined as the surrender of some good by some person—a personal sacrifice. There can be as many kinds therefore of cost as there are kinds of goods that can be sacrificed: rest, leisure, recreation, health, personal appearance, social position, domestic order, and comfort; and also material goods used up, or worn, or damaged, or withdrawn from other uses.

Labour is not the same as cost, for much cost, like the using up of fuel by an engine, is not labour; nor the same as human exertion, else many of our sports and games would have to be called labour, and play become work; nor the same as unpleasantness, for then many social duties would be labour, and many contented and happy workers at the loom or in the fields would be told at the close of day that they had done no work. Labour should rather be defined as human action of which the proper and natural purpose (*finis operis*) is some good which the operator does not receive then and there. Now, whether the husbandman takes joy in his ploughing and the craftsman in his weaving, or not, the end of ploughing is to provide food and of weaving to provide garments. The action may be healthful and pleasant, and the motives of the operator (*finis operantis*) may turn it into a labour of love: but it is still labour.

Mark three points: (1) The line between exertion that is labour and not labour, between work and play, is often hard to draw; but so are many lines.

(2) The aim of the operator may determine the *finis operis* in some cases; thus the operation itself is the reward of the "amateur," but not of the "professional." Professor Marshall's definition of labour makes all depend on the aim of the operator. Labour, he says, is "any exertion of mind or body undergone partly or wholly with a view to some good other than the pleasure derived directly from the work." (p. 134.) But then a person with constant high motives and pious intentions would be labouring all the time he was not asleep: his conversation, his meals, his play would all be work.

(3) Joy in labour, though not removing its character of labour, removes a great part of the cost of labour.

A merry heart goes all the day,
Your sad tires in a mile-a.

This point in all comparisons of national welfare is of great importance. Thus in Europe and America during the last hundred years, unsuitable education and the revolt against religion may have doubled among great populations the real cost at which they get their living. Compare, for example, the dislike of country life among the present generation of English farm-labourers (noticed by many observers, such as P.A. Graham, *The Rural Exodus*), with the happy labour of many of the peasantry in Southern Europe, where frequently for particular work the neighbours collect now at one farm, now at another, and carry out the work amid singing and merriment, as in Portugal, for unsheathing the maize before threshing. (Crawfurd, *Round the Calendar in Portugal*, p. 198.)

§ 14. **Industrial and Non-Industrial Labour.**—There have been immense discussions among economists on the classification of labour, in particular on the distinction of *productive* and *unproductive labour*. This is not surprising, because labour can be looked on from so many points of view, namely, as aiding in preparation or aiding in enjoyment; as producing necessaries or producing luxuries; as producing wealth or producing personal good; as producing permanent or ephemeral goods; as producing positive or negative goods. Since then the word unproductive is invidious, and the word productive misleading ("a slippery term," Marshall, p. 196), it seems best to express what is a necessary distinction by other words, and to divide labour into *industrial* and *non-industrial* according as its end is or is not the preparation of material goods (or the production of wealth). To draw an exact line indeed where preparation ends and enjoyment begins is a hard task, but not necessary. It is quite easy and profitable to place in the one division or the other the vast majority of those who labour; to

place in the one all engaged in agriculture, mining, manufactures, commerce, and the building trades; in the other the labours of clergy and statesmen, of the military and civil services, of lawyers and doctors, workers in science and literature, actors and musicians.

The terms industrial and non-industrial seem the best available, and are used by Dr. Sidgwick. (*Polit. Econ.* p. 265.) They correspond substantially with Professor Nicholson's *material production* and *immaterial production*. (*Polit. Econ.* pp. 44—46.) The chief difficulties lie in three departments of labour, namely, transport, teaching, and the work usually done among ourselves by domestic servants. But all three can be dealt with accurately enough for the purpose. Thus all engaged on the railways, roads, rivers, in the post-office and telegraph service, can be reckoned industrial, if to any considerable degree they conduct business traffic as distinct from pleasure traffic; all teachers can be reckoned as non-industrial, unless they are mainly employed in giving technical education; and all domestics are to be reckoned as non-industrial unless their main work is not to help their master in the process of enjoyment, and he employs them not for his pleasure but for his profit.

For a defence of the distinction of industrial and non-industrial, see Note at the end of this chapter.

§ 15. **Meaning of Income or Revenue.**—This term has a wide and a narrow sense. The wide sense known as *gross* or *nominal income* is the total wealth added to the property of a given person in a given time from whatever source; in other words, the sum of his receipts, whether in the shape of produce of his own or his workmen's labour in field or workshop, or in the shape of proceeds of the sale of his goods, or in the shape of wages for work done, or in the shape of rent or interest from property which others hire from him.

The narrow sense known as *net* or *real income* is

the nominal income minus the following items: (*a*) Destruction, damage, or loss by fire or other accident, by violence, by thieves, by bad debtors. (*b*) Using up of materials in production, and wear and tear of machinery and industrial buildings, such as factories or shops. (*c*) All sums spent on purchases of goods that are to serve the purchaser not as objects of enjoyment, but as means of getting an income. (*d*) All sums spent on hire of goods that in like manner are to serve as means of getting an income. (*e*) All payments for labour that in like manner are to serve as means of getting an income.

These five items for short can be called damage, industrial wear, industrial purchases, industrial hire of goods, industrial hire of labour.

But we must in no way include among these items the wages of servants whom a man employs for his pleasure; for this is a mode of spending net income, not a deduction before the net income can be reckoned up. Nor again must we include payments for the purchase or hire of goods that are to serve a man as objects of enjoyment; for this also is a mode of spending income and not a deduction before it can be reckoned up.

§ 16. **Complications.**—Although in the main the foregoing distinction of gross and net income corresponds with the ordinary practice in private life, it is not so in some particulars. Thus taxes are often with great convenience treated as one of the deductions to be made before net income is reckoned, and not as a mode of spending that income. Sometimes legal charges are deducted in the same way. On the other hand, expenditure on technical education is often treated like that on general education and not deducted before reckoning up net income. Again, the rent of a small home-farm attached to a dwelling-house, and the wages of

the man who does the work on it, are not distinguished from the rent of the dwelling-house and the wages of the domestic servants, and all alike treated as a way of enjoying net income, not a deduction before reckoning it up.

Another complication is with durable objects of enjoyment, such as a house. Thus if a man, with £1,000 income from four per cent. stock, spent previously £100 a year on a repairing lease of his house, and now sells £2,500 worth of stock, so that his income is only £900, and with the proceeds of the sale buys his house, he has nominally £100 a year less income, but yet is practically in the same financial position as before. In fact the Income Tax Commissioners in England add to his income what he would presumably have had to pay as house rent.

Again, as Professor Hadley observes (*Economics*, p. 5): "If a man for a series of years earns ten thousand dollars a year and spends it all, he is always rich in one sense and never in another. He has much income and no capital."

A different difficulty is to know how much is to be deducted when the same material object serves both as a means of getting an income and of enjoying it, for example, how much of what a medical man spends on house and carriage, a postman on boots, an attendant at a fashionable shop on tidy clothes, is to be deducted in order to reckon their net income.

The moral of these complications is not to abandon the simple view that income is an addition to a man's property within a certain time, but, while holding that view, ever to bear in mind that income is not a sure and exact, but only an uncertain and rough and ready test of a man's financial position, and of his command over the necessaries and conveniences of life.

§ 17. **Meaning and Varieties of Capital.**—It seems best to take this much-disputed term in Adam Smith's sense, namely, that part of a person's property which he employs for the sake of income; the other part of his property being what is used or reserved for enjoyment or not used at all. The essence then of capital in this sense is to serve as a source of income to the owner or holder of it, and thus it is far from being the same as the means of production, though often confused with them. All

means of production indeed, as far as they are appropriated, are capital, for example, farm land, farm stock, factories, materials of manufactures; but there is besides much capital composed of objects of enjoyment, such as the wages of workmen, these wages being generally objects of enjoyment or money to buy them with; or again, objects of enjoyment let on hire, dwelling-houses, furniture, pleasure-gardens, horses, carriages, all of which serve as capital, not indeed to those who hire them, but to those who let them. And all stocks of finished goods ready to be sold for enjoyment, are undoubtedly to be called part of the capital of the tradesman, and all property used by hotel keepers and theatrical managers in their business. Notice that even railways and steam-ships and the apparatus of the telegraph and postal system, although capital to the owners, are not simply means of production like a ploughed field or a spinning-wheel, but are used for pleasure traffic as well as business traffic, and thus in part are objects of enjoyment.

Many varieties of capital can be distinguished:

(1) According as it fulfils the same function more than once or only once, we distinguish *fixed* from *circulating* capital. Thus machinery, arable land, a building, a milch cow, are all fixed capital; while the material and fuel used in manufactures, and finished goods ready for sale, are circulating.

(2) According as it is composed of goods that can or cannot be shifted from one place to another, we distinguish *movable* from *immovable* capital.

Though this is often the same as the distinction of fixed and circulating capital, it is not so always. Thus a tradesman's horse and cart are part of his fixed capital, but are movables.

(3) According as it can or cannot be easily changed from

one purpose to another, we distinguish *non-specialised* from *specialised* capital. Thus wages, most materials, and some tools are capable of being easily diverted from one purpose to another; but railways, docks, most buildings, and much machinery cannot be easily diverted.

(4) According as it is composed of means of production or of objects of enjoyment, we distinguish *productive* (or *auxiliary*) from *consumptive* capital.

This is not quite the same as Dr. Sidgwick's distinction of the terms *producer's* and *consumer's capital*. He takes capital to mean, not the source of revenue to a particular person, but a particular aspect of property as intermediate between labour and enjoyment, and then gives the title of consumer's capital to durable objects of enjoyment, like houses, furniture, and works of art. But if we adopt the view of capital being a source of revenue, then "consumer's capital" is a contradiction in terms, and objects of enjoyment can only be capital to those who transfer them to others to enjoy, not to those who enjoy them.

Observe that there is a certain analogy between capital and the faculties of a skilled worker, whether professional or manual, for both are sources of revenue. But then the skill of a doctor or an artisan is not in any ordinary sense his property, and to speak of it as *personal*, *immaterial*, or *living capital* (Nicholson, *Polit. Econ.* I. pp. 47, 433) seems more misleading than instructive, because blurring the line between persons and things. Only so far as the possessors of such capacities are themselves the property of any one, as in the case of slaves, can the capacities be called capital in the simple sense. But the goods employed by a man or his family in acquiring technical aptitudes are to be called capital, being employed not for enjoyment, but for income, although a remote and uncertain income.

Many writers exclude land from capital; but it is difficult to do this without giving a strained and unprofitable definition of capital; and, as we shall see (Bk. II. ch. iv), this separation of land and capital is likely to lead us into mistakes. It should be observed that the inclusion of land in the capital of an individual or company is in accord with the ordinary practice of mercantile accounts. And land is included as a matter of course in estimates of national capital such as those of Sir R. Giffen.

For the many uses of the word capital see the excellent note in Marshall, pp. 152—157, also Hobson's *Evolution of Modern Capitalism*, pp. 209—215, and Cannan's *Theories of Production and Distribution*, ch. iv. § 4.

§ 18. **Meaning of Expenditure.**—This will depend on the previous use of the words income and capital. Taking these in the sense given above, we may define expenditure as all voluntary outgoings from the property of a given person in a given time. Expenditure in this sense may be conveniently divided into *industrial* and *non-industrial* according as it is, or is not, outlay for the purpose of securing income. Such a division is made by Professor Bastable in regard to the expenditure of the State (*Public Finance*, p. 129); only he uses, to express it, the words economic and non-economic. Expenditure on Government railways and municipal electric works would be industrial, while expenditure on the Houses of Parliament and public gardens non-industrial. Similarly, to buy raw cotton and machinery for a mill, and to pay the wages of the workmen are cases of industrial expenditure; while to buy meat and bread for home use, and to pay servant's wages, doctor's fees, and school bills, are cases of non-industrial expenditure.

Dr. Smart, in his *Studies in Economics* (pp. 269—272), lays great stress on the danger of mistake if we make no distinction between spending income and consuming wealth; the former being preliminary to the latter, and not necessarily followed by it. For example, what is spent in gambling or in paying the wages of domestics may be used by the receivers for production. Again, the spender may not be the consumer. The family indeed being taken as the economic unit, what one member consumes may be considered as consumed by all; but outside the family vast sums are spent on charitable provision of food and clothing for the poor; and here the spender is visibly not the consumer. But it is not necessary to adopt Dr. Smart's narrow use of the term consumption in order to avoid the mistake of which he gives warning. For we can avoid it, even if we use "consumption" in a broad

sense, covering much the same ground as non-industrial expenditure, provided only that we lay stress on the very different effects on individual and social welfare resulting from different kinds of consumption.

§ 19. **Cautions on the Use of Economic Terms.**—First it is a mistake to use important terms without defining them, as though their meaning was obvious, clear, and undisputed.

An opposite mistake is to attach undue importance to particular definitions, as though a new definition was a new discovery, or as though a particular word must perforce be used in that particular sense. Indeed, as Dr. Sidgwick has pointed out (*Polit. Econ.* Bk. I. ch. ii.), following Plato, the search after terms suitable to express real distinctions of fact may be more important, by clarifying our ideas, than the particular formula we ultimately adopt. It is of great moment whether or not we take the ethical view of economics; but of little moment what definition we take of wealth, value, or capital. Had this been borne in mind, the political economy of the nineteenth century would not have been discredited by so many sterile discussions about words.

Thirdly, we must be consistent in the use of terms. It may occasionally be convenient, due notice being given, for a writer to use a word in a sense different from one he has already adopted. But the procedure is lax and unsafe, in spite of the authority of Professor Marshall. Taking as his motto *natura non facit saltum*, he emphasises the *continuity of economic phenomena and problems*, that is, the absence of hard and fast lines of division, and the continuous transition from one set of actions to another; and thus he sees a fundamental unity between the various agencies and appliances for production, material and human. (Bk. II. ch. i.; Bk. VI. ch. xi.) But in this effort to avoid what is narrow, formal, and precise,

and to take a broad view of things, there are difficulties. Although, for example, there are many analogies in the complex causes that issue respectively in the production of British beef and the rearing of British subjects, this does not enable us to establish a fundamental unity between the two phenomena, unless we obscure the fundamental distinction between persons and things, paying attention to what is less, rather than to what is more important. And although the qualities of human actions shade insensibly into one another, like a summer evening into darkness, and between the good man and the bad are innumerable gradations, and men shift backwards and forwards by short steps at a time (*nemo repente fit turpissimus*), this is no reason for refusing to draw a line between goodness or badness, or for using a terminology as slippery as the men we are observing. I cannot see, for example, any advantage in Professor Marshall's change in the meaning of the term "normal." Having defined it (Bk. I. ch. vi.) as already cited in this Prologue, he confines it later (Bk. V. ch. iii.) to what happens under certain assumed conditions, and thus draws a contrast between "market value" and "normal value." But market value, as he describes it, quite conforms to his earlier definition of normal; and there seems incoherence in depriving it of the title, or at least great likelihood to confuse his readers, especially as a little later (Bk. V. ch. v. p. 440), he speaks of short-period normal value as contrasted with long-period normal value; though soon afterwards (p. 443) again using normal as applying only to long periods. Nor can this language be justified by saying that the term normal is elastic. No doubt in ordinary life it is used in senses that expand or contract according to the circumstances; and the same can be said of wealth, money, value, cost, and other terms employed by economists. But the business of science is precisely to lead us out of this confusion, a business hard to accomplish without a fixed vocabulary. Then again Professor Marshall's use of the term "supply-price," applied to such incommensurable objects as mutton, a carpenter, and business organisation, is open to the same criticism; and also the terms utility and wants applied, p. 167, to the want of alcohol by a drunkard, and p. 211, to what the drunkard's good angel would want for him.

A somewhat analogous question, that of the relativity of economic doctrines, will be discussed in the Epilogue.

§ 20. **Note on the Distinction of Industrial and Non-Industrial.**—The foregoing definitions of labour, income, capital, and expenditure imply the distinction of industrial, and non-industrial, roughly corresponding to Adam Smith's distinc-

tion of future profit and present enjoyment. The definitions imply also the possibility of distinguishing between material and personal goods, between wealth and services, and also between production and consumption. Adam Smith was not wrong in making these distinctions, but he was wrong in not seeing the complications that ensued when these abstract notions were applied to the concrete; unaware of the obscurity of the line between them, of the interweaving of the material and immaterial, and of the influence on the production of wealth exercised, for example, by family life, religion, patriotism, government, education, and sanitary science. Hence his division (Bk. II. ch. iii.) of a nation into two parts, the productive part whose labour fixed and realised itself in some vendible commodity, and the unproductive part, or all the rest, these being supported by the productive part, is a misleading division both by its delusive simplicity and ill-chosen name. No wonder he becomes liable to look on "unproductive" as idle, and seems to class menials as among the idle classes (*Ibid.*), rashly generalising from the idle lacqueys of the *ancien régime*. And his general lack of consistency and clearness is well shown by Mr. Cannan, *Theories of Production and Distribution*, especially ch. i. §§ 6 and 7.

§ 21. **Over-Reaction against Adam Smith.**—The defects of Adam Smith just named have led many writers into the opposite extreme; and because there are difficulties in drawing a line between production and consumption, between material and personal goods, and between capital and other wealth, they have refused to draw any line. But this does not remove our difficulties, only shifts them; and is liable to confuse disastrously the true issues about riches and poverty and the difference between them. Thus, as Böhm-Bawerk points out (*Theory of Capital*, Smart's Edit. p. 44), this use of terms by the famous German economist Roscher would turn an idle voluptuary into a zealous producer, ever on the watch to produce the personal goods of ease and satiety. And Mr. Cannan, treating immaterial conveniences and amusements as income, would turn an amusing but penniless friend into a source of income for his host instead of an expense; while if really the butler and coachman produce an income for their master, why, when his income is reduced, is he so infatuated as to discharge them? Really the number of domestic servants kept is often a fair test of a man's income, as Professor Nicholson points out. (*Polit. Econ.* I. p. 358.) *Quot pascit servos?* was asked in Juvenal (*Sat.* III. 141); and the same question is asked by Mr. Charles Booth—the presence or absence of menial servants and the proportion of the number

of menials to the number of the family being each made a basis of classification, when seeking to ascertain the real condition of penury or ease. (*Life and Labour of the People*, Vol. V.) It is the master that really provides for the menial, not the menial for the master. Thus Adam Smith was justified in his sentence (early in Bk. III. ch. iii.): "A man grows rich by employing a multitude of manufacturers [artisans]; he grows poor by maintaining a multitude of menial servants." Nor is McCulloch's objection valid, that it is merely the excess of servants which impoverishes, not the species of labour; for it is precisely the species of labour that in the one case tends to enrich the employer, and in the other to impoverish him; leaving him in the one case with bales to sell, in the other with bills to pay. Wealth indeed is not welfare; those who spend the most often enjoy the least; their goods may be negative, the joys they buy may be bitterness. But these grave truths are no reason for confusing income with expenditure, work with play, production with consumption, the counting-house with the reception-room, the business journey with the holiday trip. In common discourse such contrary notions are all distinguished emphatically: and though it is possible with Mr. Cannan and Professor Irving Fisher (*Economic Journal*, Dec. 1896 and June, 1897), to christen all economic goods capital if regarded as a fund, and income if regarded as a flow, we do violence to language; and the apparent simplification only involves us in fresh difficulties. *See* APPENDIX A.

Book I.

Production and Consumption

CHAPTER I.

PRODUCTIVE CAPACITIES OF THE EARTH.

§ 1. **The Two Primary Factors of Production.**—From the definition of production and consumption it is evident that the requisites, factors or elements of both, are in the first instance two, and two only, *things* to be used and *persons* to use them, the earth on one hand and man on the other. Let us first look at the earth and its capacities to furnish economic goods; then at man, his capacities as a producer and position as a consumer.

Very frequently we find co-ordinated three factors of production: land, labour, and capital. And by land, sometimes called nature, is generally meant all natural forces as we find them; by capital, all improvements and appliances. But this arrangement has weak points. If copper, for example, as "nature" provided it in the mine, is to be distinguished from copper improved into a boiler, why not distinguish a raw unskilled youth from an improved artisan? And "land" once tilled, manured, drained, enclosed, and rendered accessible, ought to pass into the category of capital, and stay there. Besides it is hopeless to try to distinguish the work of nature, inherent powers of the soil, and natural forces from the work of man. "Nature" is no less

requisite for the express train to run from London to Liverpool than for the wheat crop to be raised on the plains of Kherson and Dakota; and to try to calculate how much of the result is due to man and how much to nature, is a task as idle and impossible in the one case as in the other. It is best then not to complicate the simple distinction of the earth and man, or the distinction within a narrower circle of each country and its people. Thus too we should avoid the argument "that capital can be increased while land cannot." For this confounds geography with economics. Man cannot increase matter, but only transform it. Thus a particular acre of prairie cannot be made two acres of prairie; but no more can a particular ton of iron ore be made two tons of iron ore. The ore indeed can be usefully transformed; but so also the prairie. (See Von Wieser, *Natural Value*, Edit. Smart, pp. 191, 122.) What is right for many practical purposes of legislation and taxation is to separate, not capital from land, but movables from immovables.

§ 2. **Points of Physical Geography Important for the Economist.**—I. *Fitness as a dwelling-place.* The differences of different regions appear so great that we may wonder how some can be inhabited at all, and why the population of the world is not concentrated where the climate is most pleasant. But, in fact, whether a place of residence is to be called pleasant or healthy depends on many complicated causes; man has an almost unlimited power of adapting himself to his surroundings, and often a great power of modifying them; and we can say that if out of the fifty-one million square miles of dry land we except some three or four million of frozen regions in Northern Asia and North America, almost all the remainder either is or can be made healthy and habitable.

II. *Facilities of communication.*—Compare its difficulty in a land of impenetrable tropical forests, or marshes, or mountains, or waterless deserts,

with its ease on the level grassy plains of the prairies and pampas, on navigable rivers and seas, or where the whole country becomes, like Northern Asia in winter, one smooth road of frozen snow. Much of the world's history, political and economic, has depended on the means of communication; only observe that since man's art can do so much, the point is not so much what communications a country offers ready-made, as what facilities it offers for making them. And this will vary according to the state of the arts of production. Thus at one time to be near navigable rivers, tidal estuaries, and a coast with good natural harbours and favourable winds were matters of prime importance; but now to be accessible to ocean steamers from without, and to be easily covered within by a network of railways.

III. *Fertility of land.*—This means the capacity to support plants and animals useful to man. In this we see the greatest variety from the frozen marshes of Siberia or the salt desert of Gobi, on the one hand, to the black earth zone of South Russia, or the wheat lands of California. But here again the term fertile is relative to the inhabitants, and, *ceteris paribus*, will vary according to the animals and plants they know how to use, and then according to their agricultural skill. This skill, indeed, can do little for some of the conditions of fertility such as sunshine and rainfall; but irrigation or drainage may make up in great measure for defect or excess of rainfall; the mechanical conditions of fertility may be marvellously improved by tillage,

and the chemical conditions by all kinds of manuring; while there is an immense field for human agency in the domestication of animals and plants and in giving them care and shelter.

Then, apart from knowledge and skill, the application of concerted labour, where there is an increase of population, may enable land to be cultivated that was too heavy a task for scattered agriculturists, but yet when cultivated yields the richest return. This has been seen in the settlement of the United States, where the light-soiled uplands were the best at first and the heavy-soiled low-lying ground the best afterwards. Finally, fertility is relative to the fashions of consumption. Land admirable for dairy farming is of little use, and thus of little fertility, to the Chinese, who never touch milk or any preparation from it. On the other hand, land suitable for rice, which is their favourite food, is to be reckoned very fertile for them. But if China were inhabited by Englishmen, the swampy land suitable for rice would by comparison become barren, and the land suitable for dairy farming would become fertile, though the physical character of the soil remained precisely the same.

IV. *Stock of minerals.*—This means minerals in the wide sense, whether used principally for fuel, as coal, petroleum, and peat; or for food, as salt; or for adornment or money, as jewels and the precious metals; or for manure, as nitrate; or for building, as brick-earth, stone, and slate; or for machines and implements, as iron, tin, lead, and copper; or for making pottery and glass, as certain clays and sands.

V. *Supply of natural forces.*—These are principally the force of air and water in motion, used for sailing vessels, wind-mills, and water-mills. The importance of these forces (and the same is to be said of minerals) will vary according to the state of the industrial arts. Curiously enough the progress of

these arts has in the nineteenth century conspicuously diminished the importance of natural forces by the substitution of steam, and conspicuously raised the importance of certain minerals, notably coal and iron. But fresh inventions may reverse this change, and in fact the last decade of the century has seen a great revival of the importance of falling water, witness the "harnessing" of Niagara for the production of electricity.

VI. *Fertility of the water.*—This means the capacity of the rivers, seas, and lakes to support plants and animals useful to man. Here the arts have made by comparison little progress, and Europe is behind Eastern Asia in fish-breeding and the use of aquatic plants. Indeed the Europeans treat the water, in its food-bearing capacity, much in the way that savages treat the land, as a hunting-ground. But this may be changed; every creek and bay may be regularly cropped with domesticated diatoms, and the nations go to war over the vast field of floating plants which exists in the Atlantic.

VII. *Freedom from destructive agencies.*—Buildings, implements, books, and adornments decay very fast in some places, notably where great cold or great heat is combined with great moisture, and in some places, as in Egypt, very slowly. Sudden destruction by the elements is also much more likely in some regions than others, namely by flood, fire, hail, earthquake, eruption, avalanche, hurricane; from all of which the British Isles are peculiarly free. Then the liability to failure of crops by

drought or wet season, and the danger of disease among animals and plants, the presence of noxious animals, vermin and insects, vary in different places, and vary also, like the rest of destructive agencies, in being able under some circumstances to be removed or provided against, and in other circumstances not.

§ 3. **The Conclusion from Physical Geography.** —It is a hard task to strike the balance of advantages between different countries. But this is of less consequence, because the point of interest for economic science is not so much what are the physical characteristics of each country, but whether, given these characteristics, the life of the people is in harmony with them; whether, for example, in the damp and cold climate of the British Isles the houses are warm and dry; whether in India the salt, which is there so needful for man and beast, is cheap and abundant; whether the social institutions of Palestine favour the abundance of wells and water; whether in Siberia, where agriculture can only be practised four months in the year, there is provision for profitable employment during the remaining eight months. And we may conclude that almost every region can be the seat of a happy and prosperous nation, and is meant to be: meant to be a beloved fatherland for us to adorn and ennoble, turning to good account the physical characteristics, whatever they may be, of the land, adapting to them as far as needful our life and institutions, and making them a source of inspiration for literature and art.

§ 4. **Limitation of the Earth's Resources.**—The resources of the earth in general, and of each land in particular, are obviously limited: what is not obvious is the character and the consequence of the limitation; on which there has been much controversy and many illusions. But if we distinguish carefully five leading facts we ought to fall into no confusion. These facts are first the diminishing return to industry under some circumstances, and secondly, the increasing return under other circumstances; thirdly, the dispersion of man over the earth; fourthly, the progress of the industrial arts; and fifthly, the injury which the productive powers of the earth have received, chiefly by man's handiwork. These five facts are all closely connected with one another, being mutually causes and effects.

§ 5. **Intensity of Production.**—We have seen how production implies cost, a sacrifice of labour and of material goods. Now if, while man's productive powers remain the same, he wishes to increase the results of production within any given portion of space and given period of time, this can only be done by an increase of cost. Let the term *intensity of production* express the cost incurred within a given space and time in any industry in a given state of the arts of production. Costs, indeed, including labour and personal losses, as well as material goods sacrificed, cannot be measured accurately, but yet sufficiently near to allow profitable comparisons; if they are great, production is *intensive*, if they are small, *extensive*.

These terms imply no praise or blame and are practically identical in French and German. Strained and slack production, or elaborate and simple production, or production at high and at low pressure might be used as substitutes. The only word in common use is confined to agriculture, namely, *high farming*, meaning intensive farming.

Examples will make clear the meaning of intensity. Compare the annual cost incurred in England in raising the produce from ten acres of market-garden, ten acres of arable land, ten acres of meadow, ten acres of pasture, ten acres of rough woodland, and see how in each case the cultivation is less intensive than in the previous one. Again, take two farms, one in the best part of the Scotch lowlands, the other in Manitoba, and see how the average outlay per acre upon fences, manure, farm-buildings, implements, and labour is much more in the one case than in the other. There is great intensity of cultivation on the Scotch farm and little on the Canadian. Similarly, cattle-breeding can be conducted in a rough and ready way, or with elaborate care for each individual beast; fisheries may be worked by few men with rude appliances, or by many men with costly boats and nets; mines may be worked easily just at the surface, or with elaborate shafts, galleries, and pumps. The breeding, the fishing, the mining is conducted in the one case with extensity, in the other with intensity. The same distinction also applies in manufactures, transport, and commerce. Immense numbers of work-people, elaborate machinery, and costly buildings may be employed on a given manufacture at a given place, as at Oldham on the cotton manufacture,

and again employed in a single manufactory, like the great brewery of the firm of Guinness at Dublin; or, on the other hand, the numbers may be few, the contrivances simple; and then manufactures would not be intensive, but extensive. Vast outlay may be incurred in putting two places in communication, as London and Manchester connected by four distinct lines of railway, with double tracks, and a frequent and rapid service of trains. If there was only one railway with fewer and slower trains, transport would be carried on with less intensity, and with still less if there was only a road between the two towns, or only a horse-track, or only a foot-path. And in commerce compare what is laid out in a rural American store, only open at certain hours of the day, with the outlay on magnificently decorated show-rooms and a multitude of shop assistants in a fashionable shop in London or New York.

§ 6. **Law of Diminishing Returns.**—If we have grasped the meaning of intensity in production, we shall easily grasp the principle often known as the *law of diminishing returns*, that after a certain point increasing intensity of production yields a proportionately decreasing return. In other words, in a given state of the arts of production, if we go on increasing the costs within a given space and time in any industry, we shall reach a point where the returns in proportion to the costs begin to grow less. Every one in any kind of business must be aware of this. For example, to lay out a large sum on farm-buildings, drainage or irrigation, manure and labour

may often give a return more than proportionate to the cost; but then further buildings, manure, and labour would probably yield much less in proportion; and to go on still further with such outlay would be to turn all profit into loss. So too in fishing, if, for example, where every ten pounds is now laid out on the fisheries in the West of Ireland, fifty pounds were laid out, the value of the fish caught would probably be not merely five times, but ten times as great as at present. But then, if the outlay were again quintupled, the return would probably not again increase in proportion greater than the outlay; nay, it would almost certainly increase less. It is just the same in manufactures. Increasing outlay often gives up to a certain point more than proportionate return. To set up a well-built cotton mill with first-class machinery will probably enable the owner to make more than twice the profits of a mill built with half the expense. But had he spent ten times more, he would certainly not get ten times the profits.

This principle of diminishing returns once apprehended cannot be denied; otherwise all London could be fed with wheat from the Temple Gardens, and the entire exports of cotton goods from Great Britain could be made at one single factory. But there are complications, or the principle could never have been called in question. For though always, under any given circumstances, there must be a turning-point when returns become less in proportion, the turning-point may be altered by alterations in the circumstances. In the chapter after the next we shall examine the principle of increasing returns possible with increasing population by the greater concert of labour. Enough here to notice how increasing population acts in two ways, requiring ever increasing intensity of production, and hence approaching

or passing the point where the proportional returns grow less, but, on the other hand, pushing that point further off by enabling industry to be better organised. The two principles may thus for a long while jostle against each other, sometimes one sometimes the other predominating. But in time, if population increases, the principle of diminishing returns must prevail. There remain, however, two ways of attacking its power: to evade it by migration, or to combat it by improvements in the arts of production. And much of the history of the world depends on such migrations and such improvements.

§ 7. **Common Misapprehension of the Law.**—To say with Senior that additional labour when employed in manufactures is more, when employed in agriculture is less efficient in proportion. This is a double error, confining the law of increasing returns (which will be explained later) to manufactures, and the law of diminishing returns to agriculture. In reality both laws apply to all industries. And keeping to our present concern, the law of diminishing returns is but the application of the general physical law of the dissipation of energy, as the Duke of Argyll has pointed out; nor is the exhaustibility of man's action on land to be treated as quite different from the exhaustibility of his action on anything else. (*Unseen Foundations of Society*, pp. 22, 292.) True, the application to manufactures may be suspended in a period of continued inventions; and if the fixed capital of factories is habitually not fully utilised, each increase in output allows the charge for fixed capital to be less in proportion, for example the more yards of cloth turned out, the smaller the share each yard must bear of the cost of the machinery. (A. T. Hadley, *Economics*, p. 154.) But the same may happen with agriculture: and of much of the half-tilled English land of to-day we could probably say with truth, that precisely it is the *extra* dose of manure, the *extra* bag of cake, the *extra* cultivation, which yields the richest return. (H. W. Wolff, *People's Banks*, p. 245.) But the law of diminishing returns, though suspended in this case, is not abolished; and it is just the same in the case of manufactures. For when the best localities have been occupied, the best dimensions reached, further produce requires either the foundation of new workshops in less profitable situations (analogous to taking inferior land into cultivation), or as the other alternative (analogous to the less profitable application of labour and capital to a farm), adding to the staff, plant, or buildings of existing workshops, this additional outlay yielding in comparison with the previous outlay, a smaller return.

§ 8. **Suitable Degree of Intensity.**—In any given time and place the degree of intensity in each industry is dependent on the amount of the produce which those who conduct the industry require for themselves or their customers ; and thus the more thickly any region is populated, the greater the degree of intensity with which its farms, its workshops, its means of transport are carried on, that is, supposing they are carried on for the greatest general good.

To illustrate this let us revert to the examples already given. The elaborate cultivation of the rich land in Scotland between Perth and Dundee, about the year 1870, was reasonable because of the abundance of people with effective demand for its produce, or in popular phrase, because of the capital markets for their crops, their stock, and their bye-products which the farmers of that region enjoyed. Such elaboration, the buildings, fences, machinery, manure, and labour, applied in parts of Minnesota or Manitoba about the same time would have given physically quite the same return, but would have been unreasonable, because half the produce would have been left to rot for want of consumers. Rough and ready farming spread over large areas was the only reasonable agriculture for those distant and thinly-peopled provinces, in other words, *extensive* agriculture ; whereas *intensive* agriculture was reasonable in the populous lowlands of Scotland. Again, the intensity of manufactures in the cotton industry of Lancashire is reasonable because a hundred million men are the customers of these cotton mills ; but if their market was confined to Lancashire the elaborate contrivances of that industry would be in ruinous excess of the requirements. A magnificent railway with many trains running at great speed connects London and Liverpool. This is reasonable because of the multitude of men and goods to be conveyed from one place to the other. An equally good railway of about the same length could easily be built between Nineveh and Babylon, and worked with equal speed and efficiency ; only the outlay would be absurd, as the trains would all be empty. And probably it would have been equally absurd some three thousand years ago to have connected the sites of London and Liverpool by causeways and

canals such as then connected the populous centres of Nineveh and Babylon. Similar arguments the reader can easily apply for himself to fishing, mining, forestry, and commerce.

Let us be careful to avoid a common confusion of *intensity of production* with *improvement*. To imagine that high farming must be "good" farming, and rough farming "bad;" that a poorly furnished iron-foundry is a "bad" method of production compared with a foundry magnificently equipped with machinery and power; that in these days a mule-path is a "bad" means of communication, a railway a "good" means, are blunders. In reality there is no absolute standard of "good" cultivation or manufacture, all depends on circumstances. Intensive cultivation in the Channel Islands will "raise £100 worth of early potatoes from a single acre. But an equal expenditure per acre by a farmer in Western America would ruin him; relatively to his circumstances it would not be good but bad cultivation." (Marshall.) And in fact many farmers have been ruined by this delusion, and many travellers have absurdly denounced the "bad" and wasteful agriculture of America, North and South, and of Eastern Europe, when really these farms were as well tilled relatively to their circumstances as those of the department of the Seine or of the county of Norfolk: only the circumstances required extensive agriculture in the one case and intensive in the other. In other industries this error has often led to practical mischief, to "overdoing things," as the phrase is, such as building a railway where a mule-path was adequate; or two railways where there was barely traffic for one; or grand markets with pillars of iron and roof of glass, where the volume of business required a few wooden sheds and nothing more.

CHAPTER II.

PRODUCTIVE CAPACITIES OF MAN.

§ 1. **Variations of Man's Productive Capacity: Race Problems.**—The capacity and dispositions of man for production vary greatly with race and nationality, physical and moral surroundings, religious, intellectual, and manual training.

What is to be considered as constituting a distinct race, to what race particular individuals belong, what are the characteristics of different races, how far the characteristics of particular groups or individuals are to be attributed to race or to other causes—such problems, owing to the incurable defect of evidence, are seldom capable of exact or sure solution. Hence when we hear of success or failure in political or economic life, or in science, literature, and art, set down to the influence of race, the word race often means merely the sum of unknown causes.

We must not indeed deny the principle of heredity, but only deny its right to be a residuary legatee and be credited with all effects for which there are no other known causes. Thus if we compare a body of Chinese, Negro, and Malay common labourers of about the same age at work together, we must not say that the difference of their efficiency is due to race, unless the known causes that have been influencing

these groups of men from their childhood, food, clothing, climate, physical training, intellectual training, moral training, the aims and ideals of their companions, the teaching and practice of their religion—unless these causes are inadequate to account for the technical superiority of the one group to the other. Even if they are inadequate, we still cannot be sure whether hereditary qualities have really anything to do with the difference unless we can be reasonably sure that some other important cause, as yet hidden from us, is not in operation.

The anthropological distinction of race is therefore, with the exception of the following points, of little use in Economics.

§ 2. **Points of Anthropology for Economists.**—1. There can be fruitful intermarriage between all races, however great the apparent contrast between them whether physical or intellectual.

2. There is no evidence that any race has ever become sterile, that is, physiologically incapable of increasing or even maintaining its numbers. It is even dubious whether any race can be said to be more prolific than any other, the existing great varieties of multiplication in different classes, regions, and nations, being due to known causes other than difference of race.

3. All races can live and thrive everywhere, except in certain swampy and frozen regions, and provided the change of climate is not too great and sudden. Hindus and Swedes could not change places at once without immense mortality in the process of acclimatisation. But if on their way both races halted for some generations in South Italy, they could then perhaps each go forward with little risk. It follows that to the inhabitants

of most countries only certain portions of the earth are immediately available as fields for colonisation.

How far acclimatisation may be made quicker and easier by the recent progress in medical science and particularly the recent increase in our knowledge of tropical diseases, is an important question not yet solved.

4. Just as no race as such, by its very blood, is doomed to physical decay, so too no race is doomed to intellectual and moral degradation; the "irreclaimable savage" is a fiction. We know this indeed on other than anthropological grounds; but as a matter of historical evidence no "savages" have as yet been found who have not been "reclaimable," where Catholic missioners have been allowed a free hand; and no "weaker" races have withered and perished, wherever we know anything about the circumstances, without the causes being only too plain and too shameful, and in no way mysterious or necessary.

Let us beware of two mistakes frequently made: (1) To set at naught the rules of inductive reasoning, and with ready pen to write down to the account of certain races, or imaginary races, certain capacities, virtues, or vices without any scientific evidence to sustain these assertions. This is sometimes done even in books professing to be scientific.

(2) To ignore facts that will not square with preconceived theories; notably to ignore the cruel treatment, demoralisation, and frequent extermination of darker races by Europeans from about the year 1760 to this day. Such, for example, have been the destruction of the Jesuit "Reductions" in South America by the infidel Governments of Portugal and Spain; a similar destruction of Franciscan Missions in California, some half-century later, by the infidel Mexican Government; the interminable plunder and ill-treatment of the "Red Indians" and breaking of faith by the American Government and colonists; a similar treatment of the Maoris

in New Zealand; the extermination of the "Blacks" in Australia; the kidnapping with horrible cruelty and bloodshed of the natives of Polynesia to work in misery on plantations; the spread of demoralisation, disease, and death wholesale through Africa by European traders introducing intoxicating drinks. In all these cases the decay of the native inhabitants has been perfectly intelligible and perfectly preventable.

§ 3. **Meaning of Country, Nation, and Civilisation.**—Economic science is in close union with political science, being separated from it rather for convenience than by necessity; and the *political* distinction of nations and countries is more important in economics than the *physical* distinction of races. The terms nation and country are not indeed quite clear; but we can get a definition clear enough for our purpose without a digression into political science. We can say that the world is in great part divided into different regions of considerable size, each separated from other regions in fact if not in law by considerable political distinctions. Every such region is a *country*, and its inhabitants form a *nation*. Unity of race, of language, of religion, uniformity of habits and of territory are all helps towards forming a nation, but do not constitute it; nor is any one of them essential to national existence, though there could scarcely be a nation if none of them were present. And whether or no we can properly speak of a nation and of a country, of national life and spirit, among rude or wandering tribes, certain it is that any serious degree of civilisation presupposes serious political organisation. For *civilisation* implies a certain proficiency in the industrial arts (in agriculture and manufactures,

mining, building and transport) and a certain proficiency in science and the fine arts (some knowledge of philosophy, history, and physical science, a written literature, and some decorative skill); all of which presuppose an organised State. In fact, civilisation seems only known in combination with nations, these indeed of the greatest variety in size and power, in national spirit and vigour, in forms and stability of government, but still nations.

§ 4. **Productive Capacity according to Nationality.**—If we need caution before making assertions on the economic characteristics of races, we need caution no less in the case of nations, and what is approximately true of one generation may become false of the next. Still at any given time we can often affirm that *hic et nunc* among particular nationalities there is superiority, or it may be inferiority in special branches of production. Thus in the middle of the nineteenth century it could have been affirmed with accuracy that Englishmen far surpassed all European nations as practical engineers and mechanics, as workmen in large factories with elaborate machinery, as miners in certain kinds of mines, and as navvies in railway construction. The French, in their turn, excelled in branches of production where an artistic or fanciful design was of prime importance; the Americans of the North were singularly efficient in mechanical contrivances and the handling of intricate machinery; the Chinese in vegetable gardening; the Japanese in whatever needed a light and dexterous touch.

But these peculiarities are not fixed; new generations may grow up with different training, aims, and habits of life, and their efficiency be more or be less or be different, as the consequence.

§ 5. **According to Locality and Morality.**— Within each nation we may see, besides the obvious variation of capacity according to age, sex, and individual peculiarities of strength or skill, whole classes and districts physically below par from habitual want of adequate or proper food, healthy homes (especially in childhood), or sufficient rest and recreation. Among civilised nations such populations have sometimes been found in country districts, notably, in malarious districts, but the large towns have by pre-eminence been the seat of these weakly multitudes, and the vast growth of such towns in the nineteenth century has raised a pressing problem how to prevent a corresponding growth of over-nervous, unmuscular, and anæmic inhabitants. Nor is it certain whether the great advance of urban sanitation has not rather increased than diminished the difficulty of the problem.

The *moral dispositions* of the workers have an immense effect on productive capacity, and in three principal ways: first, by helping or hindering concerted labour (as we shall see in the next chapter); secondly, by the physical and mental weakness that often result from vice; thirdly, by the repugnance of the discontented and insubordinate to labour, whence the costs of production may be much augmented, and a given expenditure of physical energy produce a smaller result. But moral dis-

positions are in great measure dependent on the training of the young, which in this and in other ways is of profound influence on the productive power of nations.

§ 6. **Education in the Wide Sense.**—Each child starts with incapacity, ignorance, and concupiscence: the home, the church, the school, and the farm or workshop are the means by which each generation of men are brought out of this state; enabled to earn an honest living and serve their country and their God; enabled also to do the same good office for their successors. The process is called training, or, in a wide sense of the word, education; interrupt any serious part of it for a few years, and the results are terrible: the downfall of arts and sciences, the appearance of stunted and feeble, or brutal and ignorant, or sensual, covetous, and heartless populations; examples of which in the sad history of the world are only too abundant.

Education then is no light matter; and the proper harmony and combination of the four great agencies, domestic education, religious education, scientific education, and industrial education, is one of the first conditions of national welfare.

A common error of those who follow the principles of the French Revolution, is to exaggerate the importance of one of the four great agencies of education, namely, the school, and to reduce to little or nothing the influence of the other three, namely, the home, the church, and the workshop. In reality, if we had to dispense with one of the four, the school is the one that could be spared with the least evil.

Wherever Christianity has prevailed it has created good homes where the young have been trained in obedience and reverence, in self-restraint and strict morals, in filial piety

and brotherly affection. And on this foundation the true intellectual culture of the masses of the population has flourished, sometimes with, sometimes without, the mechanical appliances of reading and writing: culture, namely, by the intelligence of lofty doctrines on the philosophy of life and the mysteries of religion; culture by familiarity with beautiful literature in prose or poetry and by examples of virtue and heroism; sometimes also by acquaintance with a second language, by frequenting the performance of historical or religious plays, by enjoyment of beautiful works of art. Witness the Christian peasantry wherever Christianity has been flourishing and peace preserved. Moreover the Christian religion, just as it permeated the home and the school, permeated the workshop as a place of education; the monasteries grew at one time to be the great centres of industry and industrial training, the model farms and technical schools of their day; and the system of apprenticeship which arose afterwards throughout Christian Europe for all elaborate handicrafts was generally successful in the education of skilful artisans and god-fearing citizens.

§ 7. **Question of Technical Education.**—In our own time in Europe and America there is much discussion on technical education, partly verbal, partly the result of illusions on human nature, partly also a rational inquiry on how to adapt industrial training to new conditions of industry. More than a century ago an industrial revolution began both moral and technical; and a disorganisation of industrial training has been one of the consequences. How the moral reorganisation is to be effected cannot be fitly considered till the Third Book on the relations of masters and workmen, rich and poor. Here the technical changes in education have to be considered corresponding to three great changes in the world of industry, first the growth of production on a large scale in factories with elaborate machinery; secondly, the growth of physical science and its application to industry, so that the old phrase,

"learned profession," is no longer confined to theology, law, and medicine; thirdly, the growth of the means of communication, such as railways, steamships, and telegraphs, causing a vast increase of buying and selling and of production for distant markets.

§ 8. **Distinction of General Education from Special.**—The matter being somewhat complicated requires to be examined with some care. Let us, therefore, first distinguish *general* from *special education*, resulting in general and specialised ability, the two processes of education not indeed being separated by a hard and fast line, and often proceeding simultaneously. The moral, physical, and intellectual development that should be common to all, is the work of general education, and is carried on no less at home than at school, no less in play-time than in lesson-time. But in every civilised society we are obliged even for general education, as far as aiming at intellectual development, to make a rough distinction of lower, middle, and higher classes. For the literary culture that should be the common property of "every one," whatever his trade or profession, means "every one in the same rank of life;" and there are different ranks to which correspond what are known as *primary*, *secondary*, and *higher schools*. It cannot be otherwise: and moreover, as we shall see proved in the Third Book, the numbers for whom primary education is sufficient are the great mass of the population, while those for whom secondary or higher education is suitable and needful are by comparison the few.

This *general* education that is to make good men of us, is the foundation of the *special* education for special avocations, that we may become for example good ploughmen, or good cotton-weavers, or good bricklayers, or good foremen in iron-works, or good farmers, or good engineers, or good lawyers. Part of general education is obviously essential, most of it highly conducive to success in special education. A lad well trained to use his eyes and hands, his memory and common sense, to be obedient, honest, diligent, and steady, quick to read, write and reckon, has a good outfit for most ordinary employments; and if he has further general accomplishments, they will in themselves be no hindrance but often a help. It has been noticed how quickly those who have enjoyed higher general education are able to acquire the technical details of particular trades. It may indeed happen that intellectual culture, notably if much beyond what is the suitable average for a man's rank in life, will injure his technical capacities by rendering the commoner occupations distasteful and irksome; and writers point out that one of the great and growing social evils, especially in North America, France, and Germany, is the *over-education*, *surmenage scholaire* or *Ueberbildung*, producing a crowd of men and women too fine for their surroundings, and unable or unwilling to earn an honest living. The danger, no doubt, is great, the misery caused by this *fabrication de déclassés* is incalculable. But mark well the real ground of the evil is not so much the excess of literary education as the deficiency of moral education; these *déclassés* are

not so much over-educated as under-educated, because their homes have been disorderly and their schools godless. And the only thorough remedy is to restore good homes and religious influences. For then any excess in literary training will soon fall away of itself, and an appreciation of art and literature be possible for the great multitude without unfitting them for the plain duties of their state of life.

At the beginning of the sixteenth century a similar delusion to that of our own day prevailed; the moral training at home and at school was despised, and absurd importance was attached to intellectual training at school. The difference was that the "humanities" was the branch of learning which the Renaissance worshipped, while our idol is physical science. It should be observed that schools of cookery, housewifery classes like those given by the London School Board, and similar teaching form part of general education for girls, that all of them should possess. But the need of imparting it at the school raises a suspicion that all is not well at the home.

§ 9. **Technical Education, Higher and Secondary.**—Turning to *special* education, observe the three grades of primary, secondary, and higher, which must always exist and therefore should always be distinguished. The industrial revolution and the development of physical science have altered in many departments the matter and methods of teaching, but have not removed this radical and necessary division. Thus a higher special education is required not only as of old for theology, law, and medicine, but also for the military and naval service, for the various professions that can be comprised under the title of civil engineer, and for the head

management of many branches of industry that require a thorough scientific knowledge of chemistry and mechanics. The special scientific training at schools and colleges, which is wanted as a preliminary to these higher departments of industrial labour can be called *higher technical schooling*, forming one part of *higher technical education*, the other and no less necessary part being actual practice at the works amid the workmen.

Next below comes the education needed for foremen and superintendents in most industries, for a certain number of higher workmen in many, for the small masters in some, and for almost all the workmen in a few delicate or artistic crafts. For these various categories of men the technical education required is also double, namely *apprenticeship*, that is, being taught in the works and by working; and also either previously to apprenticeship or at least simultaneously with it, being taught in schools the physical science which is the foundation of their trade. Their education may be called *secondary technical education*, and the part of it taught in schools, *secondary technical schooling*.

The science taught at the schools may be kept up and widened in later years by reading trade journals and scientific books on mechanics, chemistry and physics; while in certain departments of industry commercial geography and foreign languages may take the place of physical science; and in other departments the drawing, designing, and the knowledge of materials useful for artistic handicrafts. The secondary technical education of girls is almost as important as that of boys, especially in view of the welfare of agriculture; and the daughters of farmers need a reasonable training such as is given, for example, by the admirable *écoles ménagères* of Belgium under nuns, where girls from 14 to 17 years of

age are boarded and given practical training in all kinds of farm work, such as cheesemaking and the management of crops and manures suited to Belgium, besides learning cooking and all other household duties. (See the details by Mrs. Crawford in *The Month*, Dec. 1897, and *The Contemporary Review*, Sept. 1898.) Similar schools in England might lessen the woeful overstocking of the urban and scholastic employments for women.

§ 10. **Primary Technical Education.**—Below the artisan and farming classes come the great mass, for whom now as formerly elaborate technical education whether in schools or workshops is not wanted, and would be a waste of time. The handicraftsmen of old times who went through a seven years' apprenticeship were but a small fraction of the general population and corresponded not to the ordinary workpeople of modern factories, but to the select few, such as foremen and those in charge of special machinery and difficult processes. The vast multitude need no more than *primary technical education* and principally that sort which they get by actually working in the fields or stalls, in the mills or furnaces; the great point being, not the technical, but the moral conditions of this apprenticeship, whether the lad is working under his father's eye, the girl under her mother's, or under those who can be in the place of parents to them, or not. But there remains the question whether we can recognise as reasonable such a thing as *primary technical schooling*. And within limits we can; that is, whenever a large body of scholars in a primary school are likely to be employed afterwards in some particular industry, a certain instruction in that industry can

be reasonably given with no prejudice to their general education.

Thus in rural schools a certain amount of botany and natural history, as far as bearing on the plants and animals the pupils will have to deal with, might be taught with advantage; in forest countries wood-carving and turning (the Swedish hand-culture called *slöjd*); in other cases perhaps, drawing and designing; and in manufacturing centres the use of the particular tools and materials of the children's future work in factory, workshop, or mine. They will thereby get on easier and quicker, doing less damage to materials and implements. Only do not exaggerate the importance of this primary technical schooling; it is little compared with a sound physical, mental, and above all moral training at home and at school, and with good moral surroundings afterwards in the workshop.

Observe that the sudden growth of the need for every one to learn reading and writing, a result of the Industrial Revolution and the spread of communications, threw physical training into the shade; but the revival of what is sometimes called manual training, is not to be confused with technical education; for technical education is special, whereas the proper training of eye and hand, that all should have, is part of general education.

§ 11. **Mistakes on Technical Education.**—*First*, to imagine that education, such as is given in secondary technical schools, is desirable and possible for the whole population, instead of for a select few; as though all could be at the top and as though, since the essence of technical education is to fit for a special post, it would not be ridiculous to apply it to those unlikely to occupy that post. Really there is latent socialism in this view, equality of education being contradictory without equality of goods. Observe, however, that many seem to approve of giving secondary technical education to everybody, when all they really mean is that certain *primary* technical schooling be given in elementary schools, or, perhaps, only that the physical training be given which, as already explained, belongs to general education.

Secondly, to imagine that, at least for all skilled trades and scientific industry, there is no longer need of apprenticeship, the place of which can be taken by technical schools, now that industry has passed from the empirical to the scientific stage. This error is fostered by the question-begging use of the phrase technical education to mean only the teaching given in technical schools. In reality, for all positions, and

the highest not the least, practice in the works is essential. Competent observers agree that training in the workshops is a more pressing need than technical school teaching, and that the best years of youth should be spent in them. For, if the works are well conducted, whatever a lad learns there for himself by direct experience "teaches him more and stimulates his mental activity more than if it were taught him by a master in a technical school with model instruments." (Marshall, p. 290.) Hence, as a general rule the chief part of secondary technical schooling should not precede but accompany work in the workshop, and be in the shape of night-schools, or attending classes so many days in the week, or if the industry has a slack time in the year, utilising it for technical schooling.

Thirdly, to run to the other extreme and imagine that now it is enough to learn trades in the workshop, that scientific agriculture is wholly a delusion, that the demand for well equipped technical schools is an idle fashion, a mere craze for the moment: as though there had been no revolution in both science and industry; as though we were still in an empirical and not a scientific stage of industry; and as though because scientific teaching was not everything it was therefore nothing, and the way to mend one folly was to commit another. The opinion, indeed, that in the *fine arts* and highly artistic industries, art schools are not the proper means of making good designers or craftsmen, but only apprenticeship, rests on quite different grounds from the illusion we have rejected, and is at any rate quite a tenable opinion. For an advance in science by a nation or by an individual is very far from implying any advance in fine art.

§ 12. **Cost of Technical Education.** — Two matters yet remain touching technical education, the one the cost of it, and the other the limits. Education in general, and schools in particular, and technical schools above all, are costly; and the terms "free" or "gratuitous," so often used in regard to them only mean that the cost is not borne by those who receive the immediate benefit of the instruction. But the cost remains to be borne by some one; and on whom it ought to fall is a delicate question not to be decided without special regard to

the particular circumstances of each country. This much indeed can be said in general, that the action of the central and even the local Government should be supplementary, filling up deficiencies and preventing abuses in the education provided by private enterprise and private charity; and that in a country where vigorous manufactures and eager and intelligent manufacturers already abound, an excellent method by which Government can foster technical education is to require that all who have to control or direct the industry of others, from the simplest foreman upwards, must first pass a test of technical proficiency. For then we may be sure that the great manufacturers will soon provide in connection with their workshops such technical teaching as is required; and that the lesser manufacturers will coalesce into groups for the same purpose.

When Christianity is widespread and its work not hindered by violence, the poorer classes of society become endowed with a vast patrimony for education, partly in the shape of property assigned for this purpose by charitable donors, partly in the shape of labour (like that of many religious orders and congregations) given more or less *gratis* for their benefit. And this educational endowment is often technical as well as general, witness even to this day the work of the Christian Brothers in Europe, of the Trappists in Africa, of the Salesians in America.

§ 13. **Limits of Technical Education.**—These bear a striking analogy to those of the resources of the earth; both are capable of immense increase, as we shall see presently, by progress in the industrial arts; but in any given state of the arts, if we keep spending more and more on education, we shall

reach a point when there will be less proportionate result, like the *diminishing returns* to increasing intensity of production. If a lad is to be a cabinet-maker, a stinted outlay on his technical trai ning will leave him an inefficient workman; let us double the outlay and probably he will not only be double but treble as efficient; but if we double the outlay again he will not be six times as efficient as at first, but perhaps only four times; and if we persist in going on with this training, he will die before he can turn all this elaborate preparation to account.

Observe, moreover, that as technical education is part of the costs of any industry, it comes under the rule already explained (at the end of the last chapter) which decides in any given place and time the reasonable degree of intensity; and thus in each particular case the reasonable outlay on technical education will depend on the quality and quantity of produce required in that case.

For example, it is waste of time for a man to learn the elaborate processes needed for making delicate inlaid and polished furniture, when in fact he will be employed only in rough carpentering for cottages and farm-buildings. Again, if in fact a man in a ribbon factory will only have to piece threads and replace the exhausted weft, the elaborate training he may have had, enabling him to design, weave, and colour ribbons, is thrown away. To train a lad to know well the main branches of agriculture and stock raising, as well as the business of the home and foreign cattle and corn trade, is an admirable work if there is a post for him to occupy and to exercise his acquired capacities, but absurd if in fact he is to be a small peasant farmer with his own household his chief market.

No doubt it is impossible to adapt education to opportunity without ever making a mistake; calculation beforehand is difficult; and considerable waste of technical training cannot at the present day be avoided. But this much can be said, that, if in some industry a hundred posts will soon be vacant requiring simple work, and five posts requiring elaborate work, to give elaborate education to a hundred boys or girls, and simple education only to five, is not a reasonable course.

§ 14. **Further Limits to National Productive Capacity.**—Apart from limits to education, the productive capacity of a nation is limited in two other ways, by the hours of possible labour, and by the numbers of the workers. On the last point it is enough at present to say that by mere excess of births over deaths, the annual increase can seldom exceed fifteen in every thousand; and hence the eagerness of many countries at many different times to supplement this slow growth by immigration. On the other point, the possible hours of labour, we cannot determine accurately the maximum number of hours in the course of a year during which work can be carried on without injury to the physical powers of the worker; we can only say that it varies with different employments, different localities, different sex and age, different domestic and individual circumstances; and that after a certain point extra hours of labour give not merely less return porportionately, but, if we look at the produce of overworked labourers through several years, less absolutely. On which fact two observations are to be made: one, that because such overwork is a national loss, this is no security that it will not be carried on, an evil fruit of bad social relations: witness the negroes in Jamaica at the beginning of the nineteenth century, many of the factory workers of England in the middle, many of the non-factory workers at the end. The second observation is that this maximum number of working hours consistent with efficiency is generally more, often much more, than the maximum consistent

with national welfare; and that in every Christian State worthy of the name, if the full number of hours of work not physically injurious is permitted on ordinary days, at least all workmen as far as possible should be secure of Sunday rest, of Saturday half-holiday, and of many holiday and festival-days besides scattered through the year.

CHAPTER III.

INDUSTRIAL ORGANISATION.

§ 1. **Meaning of Concerted Labour.**—The terms industrial organisation, the organisation of labour, joint action of men in production, division of labour, co-operation, concerted labour, can all be used to express the notion of men acting in concert in the process of production. This concert or organisation may vary from extreme simplicity to extreme complexity, according to the greater number of men working in concert, and the greater difference in the nature, the place, and the time of each man's work. Thus when two men pull a rope or lift a stone together, their concert is extremely simple: the same work is being done at the same time and place, and there are only two who act together. The other extreme is the concert which enables a Hindu to buy English-made cotton cloth in the bazaars of Lucknow. For this purpose innumerable persons, mostly totally unknown to each other, have acted in concert, doing different things at different times at different places: those who have worked on the cotton plantation in Virginia, on the railways or canals in America, England, and India, on the vessels across the Atlantic and the Indian Ocean, in

the spinning-mills and weaving-mills of Lancashire, and in merchants' offices in three continents. Many other workers have also to be reckoned, such as those who, perhaps years ago, built the railways, the vessels, and the factories, and those who have made the implements and the machinery used in any part of this complicated process of production; and then there is a whole crowd besides whose contribution to the result, being very small or indirect, we have to take no count of; else we should never reach the end of our reckoning.

§ 2. **Advantages of Concerted Labour.**—There must be some reason for such concerted labour, and it is to be found in the advantages that are to be gained by men working together. These advantages can be numbered and put in the following catalogue:

(1) Increase of mechanical force, enabling heavy weights to be lifted, large boats rowed, piles driven in, when none of these works could be done by the same number of men each working separately.

(2) Simultaneous execution of different operations which are of use only if done simultaneously, as when one man dives for pearls, while several others manage the apparatus for supplying him with air and raising him to the surface.

(3) Extension in space, as keeping in constant repair a road, a dyke, or electric cable.

(4) Compression in time, when something has to be done quickly, as extinguishing a fire, reaping a harvest, or making the most of a shoal of fish.

(5) Extension in time, enabling a work that

would suffer by interruption, as navigating a ship at sea, to be carried on uninterruptedly.

(6) Saving in the cost of learning, by keeping to one or few employments. Had a man to learn twenty trades, he would be an apprentice all his life and never a workman at all.

(7) Increase in dexterity through attention to one or few things, according to the old adage, Practice makes perfect.

The dexterity of a practised worker often appears incredible. Even men of small natural powers can gain great proficiency by limiting their operations. Thus, "in a clothing or a boot factory, a person who sews, whether by hand or machinery, just the same seam on a piece of leather or cloth of just the same size, hour after hour, day after day, is able to do it with far less effort and far more quickly than a worker with much greater quickness of eye and hand, and of a much higher order of general skill, who is accustomed to make the whole of a coat or the whole of a boot." (Marshall.)

(8) Utilisation of different degrees and kinds of capacity. Thus speed, agility, muscular strength, great stature, good memory, quick intelligence, presence of mind, and other bodily or mental qualities can receive each its appropriate employment, and easy work be reserved for weak heads and feeble limbs.

(9) Saving of time and energy in not having to shift often from one occupation to another.

Rather too much stress has been laid by Adam Smith on this advantage; for the loss before the new work is fairly started may be compensated by the relief to head and hands from the change in the form of exertion.

(10) Immense saving of labour and property by enabling the same exertion or the same means of

production to serve towards *multiple* instead of *single* production. It is practically no more trouble to carry fifty letters from London to New York within the space of a few days than to carry one, and very little more trouble to carry ten thousand; for the apparatus necessary for carrying one is very nearly adequate for carrying ten thousand.

This is an extreme case; but there are many others not so extreme, yet equally conclusive. One cowherd can look after all the cattle on the open fields of a small commune; if there was no concert, each household would have to employ a cowherd of its own. A square with an area of 400 square yards requires a fence 80 yards long to enclose it: the same area in four separate squares requires 160 yards. To carry pipes and wires under a roadway for water, gas, or electricity, is little more expensive if fifty houses are to be supplied at the end of the road, than if only one.

(11) Immense saving of tools and implements. If every one did everything, all would want all kinds of tools, and most of the tools would be lying idle most of the day. To mutually borrow and lend them would no doubt lessen the number required; but this advantage would be due precisely to labour being less isolated and more concerted.

(12) Industrial enterprises of which the reward is more or less distant, are greatly facilitated if by concert it is arranged that one set of persons attend to them exclusively and uninterruptedly, and are supported by another set who can wait for their repayment till the enterprise is completed; for example, till the palace is ready for habitation, the great ship fit for sea, the canal or railway open for traffic.

(13) Greater opportunity of using the particular

advantages of particular localities; the inhabitants of each district devoting their principal energies to the agricultural, mineral, or manufacturing industry for which their home has the principal advantages, as coal mining and iron manufacture in parts of Yorkshire, dairy farming in Denmark, vineyard culture on the Garonne.

§ 3. **Limitations to these Advantages.**—All the foregoing advantages do not indeed apply to all concerted labour indiscriminately. In particular the exclusive attention to one employment is unsuitable where the employment is not continuous, but limited to certain times and seasons, like ploughing, sowing, and reaping in England, or like the building trades suspended by northern winters or tropical rains, or like navigation in the waters of Northern Europe and America closed by ice in the winter, or like the inland transport of heavy goods in Northern Asia closed with the break up of the winter frost. Another limitation to great subdivision of employments is in the small quantity of the produce required. Thus it was reckoned by Adam Smith that in the remote Highlands of Scotland a man who was a nailer and nothing else, could make in one day all the nails he could dispose of in a year. Plainly in such circumstances there could be no separate trade of a nailer; whereas in a populous region such a quantity of nails might be required as to furnish exclusive employment to many workmen.

This limitation is analogous to that of increasing in any industry the degree of intensity and the outlay on technical education—a limit being set by the produce then and there

required. (*Supra*, pp. 37–38, 55.) Adam Smith expresses the limitation before us by the phrase, that "division of labour is limited by the extent of the market." How far such division can be carried where the employment allows it, and the market is half a continent, can be seen in the large American boot factories, in which more than ninety distinct classes of workers are recognised.

§ 4. **Result of Concerted Labour: Law of Increasing Returns.**—From what has been said on concerted labour we can advance two propositions. One is that the advantages of concerted labour are very great, efficiency of production depending on its organisation almost as much as on the capacity of the land or on the individual skill of the inhabitants. The second proposition is that the greater the number of inhabitants in a given district (in other words the denser the population), the greater up to a certain point can be the degree of concerted labour (in other words the better organised can be their industry). A third proposition follows, that up to a certain point increasing intensity in production yields a greater return in proportion to the costs; or put in another way, that in any given state of the arts of production the denser the population the easier for them up to a certain point to get their living. The technical term in use to express this truth is *the law of increasing returns.*

Observe, however, that in any given state of the arts this increase is only *up to a certain point.* However numerous the population, however great the demand for the produce of an industry, subdivision of an employment cannot extend *ad infinitum;* and of all concerted labour it may be said that it may

become so complicated as to cease at last to give any extra advantage. Remember also that the very increase of population, which fosters organisation, leads us sooner or later to the law of diminishing returns already sufficiently explained. And thus, as said before, the principle of increasing returns is no match for that of diminishing returns, and requires the help of industrial progress and the dispersion of man, in order that the material well-being of the world from age to age may rest, so to speak, in a secular equilibrium.

§ 5. **Exaggeration of the Law of Increasing Returns.**—Bastiat, the French optimistic economist, and the Americans Carey and George, exaggerate the importance of the law of increasing returns, and deny or ignore the existence of the law of diminishing returns. In a colonial country indeed this error is easily explained by what the writers see and by what they forget. They see the immense use of neighbours to isolated farmers. As Professor Marshall puts it (*Principles*, pp. 243, 244): "Every farmer is aided by the presence of neighbours whether agriculturists or townspeople. Even if most of them are engaged like himself in agriculture, they gradually supply him with good roads, and other means of communication: they give him a market in which he can buy at reasonable terms what he wants, necessaries, comforts, and luxuries for himself and his family, and all the various requisites for his farm work: they surround him with knowledge: medical aid, instruction, and amusement are brought to his door; his mind becomes wider, and his efficiency is in many ways increased. And if the neighbouring market-town expands into a large industrial centre, his gain is much greater. All his produce is worth more; some things which he used to throw away fetch a good price. He finds new openings in dairy farming and market-gardening, and with a larger range of produce he makes use of rotations that keep his land always active without denuding it of any of the elements that are necessary for its fertility."

Colonial economists are right in remembering these things; but then, unlike Professor Marshall, they go wrong in forgetting three other things. *First*, that these advantages do not go on indefinitely with every increase of

population. *Secondly*, that we must not compare the farmers or landowners amid the thin rural population of the early colonial times simply with the farmers or landowners when population is dense: but must compare the whole body of inhabitants at the one period with the whole body at the other period, if we are to judge of the average well-being; and thus in the second period we must include a crowd of common labourers, urban and rural, who were absent in the first period. *Thirdly*, that even the farmers themselves, though their money income may seem to have increased several times over, have lost a great deal that was not indeed reckoned in their income in the old backwoodsman days, but yet was income: the materials for buildings, for implements, for fuel all gratis; pasture and hunting and pleasure-grounds with abundant game and wild-fruits all to their heart's content; not to speak of the absence of infectious germs whether physical or moral. That they may have gained much by their neighbourhood becoming populous does not alter the fact that there has been a loss to be made up for; and if their previous abundance was rude, it was yet abundance; whereas the error before us forgets both the abundance and the loss.

Modern Form of this Mistake.—Some economists, like Professor Patten and Mr. Hobson, think we can checkmate the law of diminishing returns by progressive differentiation of consumption. It is indeed quite true that if mankind refused all food except wheaten bread and mutton, and all clothing except woollen, they would be much sooner affected by the law of diminishing returns, than if their requirements were varied, because of the extra pressure on the soil of the districts best suited for wheat and for sheep. But this merely proves that mankind needs variety of consumption to avert a premature and unnecessary application of that unwelcome law of limitation: the law is not checkmated. True, also, the adaptation of new kinds of goods to our use is one part (as we shall see) of industrial progress. But a part is not the whole, and had we no other means of averting the law's pressure, except by an ever-increasing variety of consumption, we should fail to avert it. On the "Law of Constant Return" *see* APPENDIX B.

§ 6. **Evils connected with Industrial Organisation: Increase of Misdirected Production.**—Indeed we have to put some further shadows into the picture of industrial organisation that seemed at

first so brilliant. For man's nature being vitiated, it comes about that concerted production when it is no longer simple, but complicated, is often accompanied by evils of which, if not the cause, it is at least the prerequisite; and these evils compel us in our economic arithmetic to make from the sum of that previous list of advantages an immense deduction.

This deduction can be divided into three principal heads, increase of misdirected production, increase of misdirected consumption, and increase of dishonesty.

Misdirected production can extend from the earliest to the latest stages of the productive process, including alike the mistake of learning the wrong trade or function, growing the wrong crop, manufacturing the wrong goods, buying the wrong merchandise. Mistakes indeed will occur even where concert is simple; but no constant and great mistakes such as are seen in the world around us. Thus numerous bodies of men have habitually too much or too little to do, alternately out of work and overworked; houses, roads, even railways are constructed, too many or of the wrong sort for the locality and are little used, while in other places there is a grievous want of them; and above all a multitude of goods liable to be spoilt or damaged by keeping, are in fact thus spoilt or damaged, because traders mistake the quantity they will sell. If nothing were made or procured but "to order," as in simpler industrial organisations, such great losses would be avoided.

Observe that misdirected production may be fostered by the private interest of certain contractors who make a profit, however unprofitable their work. Thus, the overbuilding of cotton mills, at Oldham, previous to the year 1892, was rightly attributed in great part to a combination of architects, building contractors, engineers, millwrights, machine-makers, mill-furnishers, and others more interested in starting mills than in running them.

Besides, apart from any dishonesty, there is great waste in the advertising, the canvassing, the employment of travellers and agencies needed for modern business. Many intelligent men are wholly occupied in inducing people to buy from one firm rather than another; and a manufacturer of sewing machines could declare that it took more to sell them than to make them. (B. Jones, *Co-operative Production*, pp. 747, 748.)

§ 7. **Increase of Misdirected Consumption.**—This drawback is, perhaps, more important even than the last, and has hardly yet received the attention it deserves. At all times indeed ignorance, folly, or vice may result in people consuming what is not good for them at all, or what is less good for them than something else they could procure, and thus more or less wasting their income. But where concerted labour is complicated, it may happen, and in our present industrial organisation does happen, that it is the immediate interest of many people to produce and sell inferior merchandise and to foster misdirected consumption. Thus in England at present there is a vast production of goods known as cheap and nasty, which are really not cheap, if by cheapness we mean that the cost is low in comparison with the utility. The enormous quantities of bad beer, ill-made "cheap" bread, "slop" clothing compounded of "shoddy" cloth and soap, machine-sewn boots of bad leather, "jerry-built" cottages and houses in which all

the work has been "scamped," furniture made of unseasoned timber and knocked together with nails instead of being dove-tailed—such goods are not really cheap, but wasteful: wasteful because they are often inefficient as objects of enjoyment, when a little increase in cost would give a great increase in efficiency, and sometimes even injurious to health, and their "cheapness" dearly bought by the absence of earnings and the presence of medical charges; wasteful, moreover, because of the frequency of repairs or renewal that is necessary and that perhaps for some twenty per cent. more cost might be lessened two hundred per cent. It is thus probable that the sums annually wasted by the English middle-classes on "doing up" their houses, and by the working classes on replacing their clothing, amount to many million pounds. And the vast majority of consumers have no choice but to acquiesce in this waste, as they lack the time and the technical knowledge to procure well-built houses and durable clothes, and must take, as the only guides at hand, appearance and price, following the fashion of the day and selecting what looks the best and is called the cheapest.

So Professor Marshall complains "that in all kinds of clothing and furniture it is every day more true that it is the pattern which sells the things" (*Principles*, p. 295); and he laments the "rapid changes of fashion which now extend their baneful influence through almost every rank of society." (p. 367.)

Hence good merchandise is at a disadvantage compared with bad, and cannot find purchasers, not from any "insane craze of the public for cheapness,"

as is sometimes said, but because the public do not know, and cannot know, any better. And thus unless some protection is given to good workmanship it is probable where industry is highly organised that *the inferior merchandise will drive out the superior.*

Then further it has become the interest of whole bodies of men to promote a misdirection of wants or depraved consumption, by enticing others to purchase what is morally or physically injurious to them; and thus to cause the substitution of negative goods for positive. Two notable examples, keeping again within the limits of modern England, are the enticement of working women to get into debt and ruin their homes by the purchase of trinkets and dresses from travelling vendors; and secondly, the enticement of all the poorer classes in town and country to become drunkards. The immediate and direct waste of wealth is probably not so great in these cases as in those former cases of the use of inferior merchandise; but the ultimate and indirect waste is probably greater.

§ 8. **Increase of Dishonesty.**—The spread of buying and selling and of many dealings between those unknown to each other personally, and careless of each other's good opinion, are not the cause indeed, but the opportunity of much cheating and trickery. The mere transfer of wealth to the smart or crafty from the simple or conscientious is not indeed in itself a waste of wealth; but the process involves a waste in the precautions against being cheated, in the precautions against being found out,

and in the time and goods spent in adulterating wares and in deceiving purchasers.

The connection of trading and dishonesty is not indeed a novelty; for of old they were boon companions; nor was it an accident that the word *κάπηλος* meant both retail dealer and rogue. The novelty is the calling dishonesty "smartness" or "a form of competition;" and secondly the allowing it so often and so openly to go unpunished; and thirdly, and consequently, its extraordinary prevalence.

For modern England, for example, see the discussions on commercial morality in the *Economic Review* beginning July, 1893, and disclosing the habitual and compulsory deception by shop assistants and commercial travellers, and the bribery of servants and agents by tradesmen and contractors who else must go bankrupt; besides a gigantic system of misleading advertisements. The secret and illicit commissions in trades and professions have so developed as to have aroused in 1899 the attention of Parliament.

The frauds connected with the Stock Exchange are another striking form of dishonesty occasioned by industrial organisation. They will be treated principally in the chapter on the use and abuse of commercial credit. (Bk. II. ch. x.) Here it is enough to note that the sum lost by defaulting companies has been roughly reckoned in the United Kingdom for the seven years 1891–97 at £56,000,000. Of this sum indeed but little was swallowed up by the absurd or fraudulent undertakings themselves, and the greater part was a mere transfer of wealth from the unwary to the unscrupulous. Still, much that the speculators wasted in riotous living would have been turned to good purpose had it remained with those who fondly thought it was being employed productively.

The most flagrant case of loss through dishonesty is where wealth is deliberately destroyed for the sake of gain. The chief case is that of over-insurance, where ships and their cargoes, or buildings and their contents are insured for a sum greater than their value, and then are sunk or burnt for the sake of gaining the surplus.

Perhaps the commonest form of dishonesty is the habitual adulteration of goods. Thus the public analyst for the parish of St. Luke's, East Finsbury (according to the *Times*, 13 October, 1891), found the percentage of goods that were adulterated to be 43 for the milk samples, 16 for the mustards, 14 for the coffees, 11 for the spirits, 11 for the butters, and 75 for the disinfectants.

§ 9. **Minor Evils connected with Industrial Organisation: Increase of Carelessness; Physical Injury; Mental Degradation.**—Besides the foregoing principal drawbacks to concerted labour, there are some minor ones.

Increase of Carelessness.—The more complicated the industrial organisation, and the more each workman is employed not on his own property working for himself, but on others' property for a master, or on joint property for a body of which he is but one small constituent, the less motive there is for careful work, the greater likelihood of negligence. And negligence can cause great loss in the process both of production and consumption. Only much the greater part of this loss, for example, the gigantic waste and damage done in private houses through the carelessness of servants, is not to be imputed to the elaborate concert of labour, but to the bad social relations between rich and poor.

Physical injury by working exclusively at one thing. This is true of certain trades; and perhaps those who smelt copper, grind steel, manufacture chemicals, scour pottery, and dip glass, should only give a half or a quarter of their working time to this employment, and do something else during the rest of it. But for the great mass of employments there is not any such serious likelihood of evil results from attending to them continuously, *provided always* that the proper precautions are taken—namely, that the special sanitary risks of each trade be met by proper clothing, cleansing, and other

contrivances; that none be admitted whose constitution is unfit for the particular trade, and that the hours of work be reasonable. No doubt if these precautions are neglected, the division of labour is followed by physical degradation, but the fault lies with the neglect of precautions not with the division of labour.

Mental degradation.—It is said that where a man has for his whole employment some seemingly trivial, mechanical, and monotonous work, like piecing threads, replacing exhausted weft, grinding needles, stamping names, there is no scope for his reasoning and artistic faculties, and he becomes a mere automaton. But though it is true that the introduction of great division of labour has at times been followed by the intellectual degradation of the workmen, as in Lancashire fifty years ago, and in London now: the part of that degradation really due to division of labour has been next to nothing, the part due to evil social relations has been almost everything. In the Third Book we shall examine these relations; here we need only say that where they are good, no workman need have his faculties blunted or dulled by his work; and although he may not be able to take a pride in it, as a ploughman in his straight furrows, and a carpenter in his smooth and solid woodwork, he can take a pride in being steady, careful, diligent, cheerful, and in making good use of his earnings and his leisure.

§ 10. **Exaggerations on Division of Labour and Machinery.**—If we quit the ethical for the mechanical standpoint, and, instead of regarding the faith and morals of the workpeople,

and the relations between parents and children, masters and workmen, rich and poor: if we look instead only at what is physical and technical, we may fall into either of two opposite errors. We may exaggerate the evils of the division of labour, and may compare a mill-hand of to-day with a craftsman of the time before the Industrial Revolution; when really the modern representative of the ancient craftsman is rather the skilled manager of elaborate machinery, like the pattern-engravers in cotton printing, and the foreman who starts a loom in a ribbon manufactory, or again the skilled repairer of machinery.

On the other hand, we may think that elaborate division of labour assures the material welfare of the poorer classes of society. It is true, as Bastiat says in his *Economic Harmonies*, that in a single day a village carpenter consumes things which he could not himself produce in ten centuries; and it is true, as Adam Smith says, that the number of people who contribute towards the accommodation of a day-labourer in a civilised country exceeds all computation. But this does not assure us that the two men are any better off in consequence. The point is whether they are well-fed, well-clad, well-housed, not whether ten or ten thousand men have had a hand in providing the meals, the garments, and the dwellings. That famous passage in the first chapter of the *Wealth of Nations* can be applied almost as it stands to the "accommodation" of a drunken woman in London: to provide her with cotton garments, tea and sugar, new gin, and a penny novelette, the whole world may be said to have been set in motion; and the end of this world-wide concert and technical triumph, is a spectacle from which we have to turn away horror-stricken.

It is significant that Adam Smith, having fallen into this error in the first book of the *Wealth of Nations* (ch. i.), falls in the fifth book into the opposite error. (ch. i. Part 3. art. 2.)

CHAPTER IV.

INDUSTRIAL PROGRESS.

§ 1. **Meaning of Industrial Progress.**—Let this phrase mean improvements in the arts of production, that is, a technical change enabling returns to be greater in comparison with cost; the change being the use of fresh chemical, mechanical, or physiological processes, or of fresh motive forces, or fresh materials; and the advantages are as follows:

(1) Labour saved, as when by the use of a crane in unloading a ship the same result is attained with less labour: or when the same labour gives greater results, as by the use in farming of a good rotation of crops and good implements.

(2) Time saved, as when by better application of chemistry and mechanics, tanning leather is done in a quarter of the time it took formerly, and bleaching cotton cloth in an eighth of a quarter.

(3) Materials saved, as when, by the application of the hot blast, the amount of coal used in making iron was lessened by about two-thirds.

(4) Implements saved, as when the processes were discovered of tarring and painting woodwork, galvanizing iron, making steel rails instead of iron.

(5) Danger of being killed, maimed, or damaged

in health lessened, as by the invention of the safety-lamp, the automatic brake, the wool-combing machine superseding a former unhealthy process.

(6) Improved quality of goods, as when by domestication, grafting, or crossing, plants and animals have been marvellously improved, or when by mechanical inventions we have become able to make delicate and trustworthy instruments for the surgeon or astronomer.

(7) New goods discovered, as maize for food, cotton for clothing, baked clay for dwellings, petroleum for fuel.

(8) New powers gained by which we can do what at no cost we could have done before: register time, heat, moisture, raise great weights, strike with great force, throw great distances, move with greater velocity.

§ 2. **Historical Survey of Industrial Progress.**—The following points deserve notice. *First*, the history of many of the greatest inventions is lost in antiquity, such as the domestication of animals and the cultivation of grain. *Secondly*, some inventions of the utmost value for a particular locality are of little value or no use elsewhere. For example, the domestication of the camel, and the art of making sweet and edible the fruit of the date-palm, were two inventions of the Babylonians of the utmost value to the regions of Syria, Arabia, and Northern Africa, but not to Europe or Hindustan. *Thirdly*, some inventions, though capable of being widespread, have in fact been confined for centuries to particular countries. Thus artesian wells have

been known from time immemorial in China, but are only a recent invention in Europe. *Fourthly*, there has often been technical retrogression and arts lost and not always rediscovered. Thus the objects found at Pompeii show that the Romans knew much that we imagined till lately were recent discoveries (such as a quadrivalve speculum); the Egyptians could raise a monolith of sandstone weighing over a hundred tons, and lower it into position, but how we do not know; the cement of the vast underground cisterns of Constantinople from the earliest times of the Eastern Empire has required no repair even to this day, and this art we no longer possess. *Fifthly*, until the middle of the eighteenth century we do not know of any period that can be called a period of technical revolution. Archæology may indeed disclose one: the domestication of the vine and olive, of the horse and of fowls, the weaving of wool and flax, the use of metal implements, may have been improvements made in some country in the space of a century: but as yet we know not in antiquity of any such century. *Lastly*, we may say that up to about the year 1750 the manufactures and modes of transport, and the methods, if not the plants, of agriculture in Europe, were much more like those of Greek and Roman civilisation twenty centuries before than like those only one century afterwards.

There is a fine passage in St. Augustine's *De Civitate Dei* (xxii. 24) showing the marvellous advance reached by the Roman Empire of the early fifth century in the arts of production, in the instruments of war, in the fine arts, music, and literature, in mathematics, astronomy, and medicine.

During the following thirteen hundred years perhaps the most useful technical advances were the new water-mills and the acclimatisation of the silkworm in the sixth century; the use of wind-mills in the eleventh, of the compass in the thirteenth, of printing in the fifteenth century; and in the sixteenth the acclimatisation of maize in Southern Europe, of potatoes in Northern Europe, and the invention of knitting stockings and of the stocking-loom.

§ 3. **The Industrial Revolution.**—From about the year 1750 as a starting-point a tremendous change began, and a great part of industry was gradually transformed, passing from the traditional or empirical stage to the scientific. Why the revolution should have happened at the time it did, and why Great Britain should have been its principal centre, whence it spread to other countries —this complicated historical problem we need not try to solve, nor whether physical science has done more for industry than industry for it. Certainly great technical inventions can be made without much knowledge of physical science, many leading inventors have been without it, and the Industrial Revolution may be said to have started without it: but not continued without it; and chemistry in particular, having received enormous aid from the superior instruments now provided by industrial skill, has been repaying the debt by many contributions to invention (bleaching for example). Plainly, where riches or honours await those who invent or turn inventions to account, this strong inducement is a stimulus to man's powers of ingenuity; and thus where men are linked together in happy social relations, enjoying a quiet and cultivated life, there is less probability of inventions than

amid the restless strivings of discontent, and the mobile relations of a society in solution. Hence it may be a set-off to the evils of such a society that inventions may be fostered, the true benefit from which will be first received by the tranquil and organised society of future generations.

§ 4. **Some Details on the Industrial Revolution.**—In the textile industries about 1750 the inventions of John Kay, and Robert his son, doubled the productive power of the weavers. These could now use more yarn than could be spun by the spinners; but in 1767, Hargreaves invented the spinning-jenny, enabling one spinner to do the work of eight, and soon afterwards Arkwright, by the invention of the water-frame, a still more efficient instrument of spinning, "suppressed the principal manufacturing function of one half the human race." (Le Play.) Spinning had been for ages the ordinary and characteristic occupation of women, the distaff was their sign, and spinster the legal term for unmarried women. Meanwhile, an invention by Lewis Paul superseded the ancient and lengthy process of hand-carding, and soon the advantages of the spinning-jenny and water-frame were united in the invention made by Crompton, and called the mule. But a machine for weaving instead of the hand-loom was wanting till Cartwright, in 1785, devised the power-loom, which, when it came into general use in the early years of the nineteenth century, struck almost as great a blow at the domestic industry of men, as the spinning-machines had already done at that of women, and changed this great branch of industry from hand-work into machine-work. Further, before the eighteenth century was over, bleaching and printing cloth received such improvements, that bleaching could be done more than thirty times as quickly, and printing, in some cases, could be done with nearly a hundred times less labour; while one great material of the textile industries was able to be obtained in sufficient abundance by the cotton-gin, the invention of Whitney, the American, in 1792. Above all, the steam-engine was now applied in textile factories, and they could quit the mountain-valleys and running-streams, and take their place on the coal-fields.

In the iron trade, about the same momentous period, the middle of the eighteenth century, the use of coal for smelting, instead of wood, was first successfully practised by Roebuck's method, and steam first successfully used as a motive force

by the discoveries of James Watt, who took out his first patent in 1769, since when there has been a wonderful partnership between coal, steam, and iron, not yet broken up, though threatened by electricity. One discovery or improvement followed another in these three agents of production: the rolling-mill and puddling furnace of Henry Cort, the slide-rest of Maudsley, the safety-lamp of Sir Humphrey Davey; the application of steam to locomotion at sea by Bell and Fulton, and on land by Stephenson; the hot blast of Neilson, the hydro-electric machine of Armstrong, and those processes of Bessemer enabling steel to be made cheaply, so that now we live in a steel age rather than an iron age.

In agriculture also several notable improvements were made in the eighteenth century, notably in East England, the restoration of the practice of marling, and the introduction of a crop of turnips instead of fallow, resulting in the excellent four years' rotation of turnips, barley, clover, and wheat. The breeds also of sheep and cattle were improved, and a better provision made of winter fodder. These improvements indeed were not a revolution; they were but empirical, and agriculture remained of the same character as when Mago wrote his famous text-book of agriculture for the Carthaginians, and Columella for the Romans; and probably the contemporary Chinese were quite as forward as the best English farmers as far as we can compare such different crops and methods. But as the nineteenth century advanced a real revolution was to be witnessed in Europe and America, from the application of mechanical and chemical science to agriculture, giving new implements, sometimes even new motive power, new methods of treating the soil mechanically and chemically, new methods of feeding live stock and of raising plants. And this revolution is not nearly at an end. The possibilities of a transformation of agriculture are rightly urged by Dr. Kaempfe in the German translation of this Manual; and recent advances in chemistry and electricity and their practical application to the treatment of the soil, for example, by Solari the great Italian agriculturist, promise within the next few years immense results.

§ 5. **Estimate of the Gain from the Industrial Revolution.**—The gain from any technical improvement is seldom capable of exact, often not even of approximate measurement; and sometimes we are in doubt, so complicated are the issues, so wide-

spread the ramifications of cost, so contrary the interests of different persons, whether there has really been a net gain, and thus whether the technical change deserves the name of an improvement at all. But though much is obscure, we can at least see enough not to be misled by the rhetoric of optimists on one side, or of pessimists on the other, and to be able, if we cannot solve the problems, at least to see what are the problems to be solved.

That the industrial revolution has resulted in an immense increase of man's powers in certain directions can be seen by examples and sometimes even expressed in figures. Coal can now be put into ships at the rate of 400 tons an hour; hydraulic cranes are made that will lift 160 tons' weight at a time; we can easily travel by sea at the rate of 15 miles an hour, and 50 by land; printing by machinery has been so improved, that each man each hour can print some 3,000 copies of a newspaper, and that each week-day morning the newspapers issued from London would stretch over about a thousand miles; electricity has enabled the most remote regions to be in almost instantaneous communication; the new facility of producing steel has given us a material twice the strength of iron, not fibrous, but with full strength in every direction, as tough as leather, and nearly as hard as a diamond, so that Bessemer's invention has been reckoned, and probably reckoned too low, to have added as much to England's productive power as the labour of a hundred thousand men; the force of the steam-engines in England is said to be more than twenty times the muscular force of the inhabitants, that is to say, we should have to number 600 million inhabitants instead of 30 million in order to exert that force without the steam-engine; it is said also that efficiency in cotton manufacturing has increased more than 300-fold; it was reckoned at the Exhibition of 1851, that in the twelve previous years half the expense of the main operations of husbandry had been saved by mechanical inventions; and if this was an exaggeration at the time and place, it is probably an under-statement of the advantages got in modern America by agricultural machinery, where by the plan of interchangeable parts, all duly numbered, any damage can be quickly

repaired, and one great obstacle to the use of agricultural machinery is removed.

Such are specimens of gain from the industrial revolution: many others might be added and illustrations drawn from many countries.

§ 6. **Difficulty: Why has the Gain Profited us so Little?**—We are now confronted with the very serious question why after such a brilliant advance we are not better off, why so many are hard-worked, ill-clad, and ill-housed, so many tens of thousands of people even in Great Britain are bowed down with abject poverty, and if we reckon our subject countries, so many tens of millions. And the question is all the more striking when we remember the profound peace which has prevailed in the Empire with little serious interruption for the greater part of a century. For if we compare societies which *without* a technical revolution have enjoyed for a long time a similar political tranquillity, for example the Roman Empire at the accession of Commodus, the dominions of the King of France at the death of St. Louis, or the German Empire at the accession of Maximilian I., the objects of enjoyment in those societies seem little if at all inferior to our own. I am speaking, observe, of their material not of their moral conditions, and the question, keeping merely to the level of bread and butter, is why with such wonderful superiority in our means of production, with the terrific heat of our furnaces, with the tremendous strokes of our steam-hammers, the objects of enjoyment which result from all this energy appear so feeble, that it is open to doubt whether on the whole our food and clothing, our

houses and furniture, our baths and pleasure-grounds, our adornments and decorations, are superior to those enjoyed in past ages of peace and prosperity.

§ 7. **Four Mistaken Explanations of the Difficulty.**—(1) *Optimistic.* To suppress the difficulty by suppressing facts, ignoring past history, or else blackening it, or making profitless comparisons as between civilised and uncivilised peoples, between modern Europeans and tribes of savages, between countries after years of peace and power, and countries in the throes or on the morrow of a desolating war. Such procedure, though very common during the first half of the nineteenth century, and not rare in the second half, is very irrational.

(2) *Materialistic.* To cancel the advantages brought by the Industrial Revolution by making it the one or the main cause of most of the evils we suffer: of misdirected production and consumption, of dishonesty and waste, of stunted faculties, of evil relations between masters and men, rich and poor: as though cruelty and oppression were new phenomena, and as though, when the iron entered into men's souls, it was the senseless metal of driving-wheels or drilling-machines that was to blame, and not rather the foreheads of brass and the hearts of steel.

(3) *Socialistic.* To admit, even exaggerate, the great material gain to production by modern inventions, and to explain the non-sequence of general felicity by the unfairness of distribution, the few having been able to divert the vast surplus into their own pockets, whilst they leave the many no better or rather worse off than before. There is some truth in this view, for a great part of the extreme misery among ourselves is due to bad laws and neglect of duty by the rich and powerful, and thus may be said to be due to unfair distribution. But then if that extreme misery were removed, nay, if all the national wealth were equally distributed, even then, apart from other difficulties, the difficulty before us would not be met, for each man's wealth would be little, if any, more than the average enjoyed by the masses in those other periods of prosperity; and we should look in vain for that great well-being which those great technical triumphs had led us to expect.

(4) *Malthusian.* To admit the gain and explain that the cup of general happiness has been snatched from our lips by over-multiplication: if only population had been restrained

we might have enjoyed the draught; but now all that these grand inventions have done is to allow a more numerous, but not a more easy population. This error also is a half-truth and thus all the more delusive. The Industrial Revolution has indeed been accompanied by a vast increase in population which could scarcely have come into existence without it, or would have had to live a harder life through the action of the law of diminishing returns. But then, had there been no great increase in population, it is highly improbable that the Industrial Revolution would have proceeded; and in any case, artificial restraint to population, as we shall see in a later chapter, is the way not to an easy happy life, but to miserable toil and the impoverishment of families and of nations.

§ 8. **The Real Explanation of the Difficulty.**—This is two-fold, first that many of the grandest inventions really serve our welfare much less than they seem, and secondly, that many losses and injuries have fallen on us, some due to the Industrial Revolution itself, which this revolution has had to make up for. When the inventions have been duly appraised and the compensations duly allotted, we shall not be surprised that so little net gain is left over.

§ 9. **Improvements less Important than they seem.**—An improvement in part of the cost may appear as though it were a saving in whole; but if that part be but small, the greatest improvement in it must give but a small result. Thus if one twentieth part of the price of bread is due to the cost of grinding corn, the greatest possible improvement in the miller's art can never reduce the price of bread by quite so much as five per cent. Again, the most magnificent improvements in the means of production are of little service to the great body of the people, if the objects of enjoyment, which are the end of those means of production, are

items absent or insignificant in the budget of the poor. Thus if the cost of turtle soup, tennis racquets, steel pens, blotting paper, cinnamon, and arrowroot be reduced more than one hundred to one, the saving in the total expenditure of a British workman will be reduced by less than one in one hundred. Further, the most conspicuous technical advance has been in means of communication, as steamships, railways, telegraphs, and telephones; all admirable inventions and giving many advantages to production, but whose great effect is to enable men to dwell close together and be fed from a distance, rather than to be better housed or better fed.

§ 10. **Misdirection of Efforts and Wants.**— These inventions have moreover given a tremendous impetus to misdirected production and misdirected consumption, and they have been the chief occasion of that concentration in great cities which is one of the gravest difficulties of our time, our greatest disadvantage compared with the past. Hence in this great department of invention there is much loss to be deducted from the gain.

By forgetting the great fact of misdirected consumption, we are liable to look on changes in consumption as improvements when they are mere changes, or even changes for the worse. Thus the vast consumption of tea and sugar in England made possible by the Industrial Revolution, is undoubtedly a great change from the habits of one hundred and fifty years ago; but whether a change for the better is dubious; and the vast use of tinned provisions in the United States is probably a change for the worse. Indeed, the inventions by which food can be preserved for long, and transported from afar, may be liable to the drawbacks of fostering a concentrated instead of a scattered population, and eliminating better food to make way for worse. Thus it

is by no means pure gain that fishmongers, by the use of ice, can now keep their fish so long, or that in 1890 some two hundred million pounds of beef and mutton were able to be imported into England, a result of the introduction eleven years before of the Bell-Coleman machine for preserving carcases cold in a voyage through the tropics.

§ 11. **Destruction and Damage.**—Further, by an irony of fate, not only has chemical science been degraded as an instrument of adulteration, and mechanical science to construct the flimsiest of buildings, but the grandest technical triumphs have been in engines of destruction, for example, a 110-ton Armstrong gun taking fifteen months of day and night work to make, composed of five thicknesses, holding a charge of 900 lbs. of gun-powder, driving a shell weighing 2,000 lbs. at a velocity of 2,000 feet a second, and having a range of about 14 miles. Hence the very progress of invention has imposed on each nation that values its national existence a heavy burden of costly armaments.

We have, moreover, several other deductions to make for drawbacks incidental to the Industrial Revolution: pollution of streams by manufacturing refuse and destruction of their use for drinking, washing, or fishing; pollution of air by vapours, gas, and smoke, with the consequent destruction of vegetation and need of endless cleaning and renovating of garments, dwellings, and furniture; occupation by railways of a considerable surface of land often the best for agriculture or for habitation.

In England and Wales, with about 17,000 miles of railways, nearly two-thirds with double track, some with treble, or quadruple track, and much in cuttings or on

embankments, besides numerous station-yards and sidings, we may perhaps reckon that about twelve acres are occupied by each mile of railway, and thus some 318 square miles out of the total of 58,000, or one square mile in every 182 withdrawn from cultivation.

§ 12. **Work made Unpleasant or Injurious.**— Then, again, by the Industrial Revolution, the conditions under which industry is carried on are often more unpleasant, unhealthy, and dangerous than before. True that some unhealthy and laborious occupations have been superseded in the course of industrial progress; but more have been introduced. True that in recent years there has been a great advance in sanitary precautions (fans, for example, and screens and ventilators); but then much of this is merely undoing the previous mischief of the new modes of production, and is not a creation, but a restoration of healthy work. True again that the immense bulk of the physical evils which in fact have accompanied the Industrial Revolution are to be attributed not to machinery, but to man, for example, the overwork of the factory operatives, men, women, and children, that has been one great disgrace of the nineteenth century. But there is a residuum of physical mischief which no efforts of science and humanity seem as yet able to remove: risk of injury to life or limb amid the complicated machinery; damp, as among the bleachers, unlike their old conditions when the cloth was hung out to bleach in the sun; night-work unavoidable, as on railways and at blast furnaces which must never be extinguished; great heat, as in foundries and glass-works; noise, as in

cotton factories and iron shipbuilding; and above all, the constant close attention—the continuance of effort—which work requires where the worker has not the control of the implements, but rather the implements of the worker.

A technical term is wanted to express work at high pressure, great intensity of work, over-pressure, "drive," stress and strain, high tension, strained methods of production. For this is the matter which is really grave, and the unhappy consequence, the *premature old age of workmen*. This has been well emphasised by Mr. Charles Booth, Professor Nicholson, Mr. Schloss, and Mr. Hobson. Besides the physical strain of working at great speed, the mental strain is great of performing delicate operations against time. Nerves and muscles give way; less substantial and more enticing and expensive food is needed; the benefit of shorter hours is lost by over-compressed labour; and since employment ceases so early, the high wages are only high in appearance, as much must be deducted as an insurance fund against the lack of employment to be expected at the age of fifty or even forty. So for example among the cotton-workers of Lancashire, the hardware-workers of Birmingham, the baking operatives of North London; so among engineers, gas-stokers, and dockers; and we read in the journals the frequent heading: "Too old at forty," and from time to time the pitiful record of starvation or suicide as the consequence.

§ 13. **Artistic loss.**—This is the question of the loss or the deadening of the artistic faculties of the masses, and the spread of ugliness and the commonplace, instead of all products being more or less a work of fine art, and is a complicated question. For the growth and decay of the sense of beauty seems from the historical evidence an unaccountable marvel; ugliness has superseded beauty in cases where there has been no accompanying industrial revolution to bear the blame; and compared with whether the poorer classes are secure of their daily bread in happy homes of piety and affection, or not.

the shape of their utensils or the colour of their garments are not matters of serious account. More serious and indisputable is the injury to the beauty of a country, for example, in England the fair valleys of Lancashire and the West Riding, and the wooded slopes of the Midlands, being often totally disfigured, and the beautiful towns that were as jewels set in the land at the accession of George II., gradually becoming hideous blots on the landscape, and places where none would dwell who had a choice of dwelling-place.

Because it is impossible to get any accurate measure of this loss, there is no inaccuracy in laying stress on its magnitude, as was well done by Ruskin in the face of much illogical derision.

§ 14. **Depreciation of Faculties.**—This is the lessening in the value of faculties that cannot be adapted to the new mode of production; and the more valuable and more specialised those faculties, the greater the loss. As a fact, in trade after trade the old skilled handicraftsmen have been superseded, and been unable to earn their living; but the terrible misery that has followed, as that of the hand-loom weavers in the first half of the nineteenth century in England and India, is not a necessary consequence. For a wise Government can hinder such changes being sudden, and can give to these victims of a change that is for the general good their well-deserved compensation, so that the unavoidable loss may be mitigated and endurable.

Besides such undoubted injuries to particular skilled workmen, machinery has been charged with injuring the mental faculties of workmen in general, making them stupid

automata. This charge has been answered by anticipation at the end of the last chapter in answering a similar charge against division of labour. And so far is it from being proved, so much skill and thought being in fact needed in many processes of machine work, that some writers run to the other extreme, and exaggerate the educational and humanising influence of machinery, and the judgment and carefulness it requires. The question is fully and temperately discussed by Mr. J. A. Hobson, *The Evolution of Modern Capitation*, 1894, especially in ch. ix.

The further charge, that machinery injures work-people by lessening the demand for labour, will be dealt with provisionally in a note at the end of this chapter.

§ 15. **Technical Progress as a Compensation for Injury to the Earth: Four heads of injury.**— Finally, to complete our explanation of the difficulty we are considering, we must remember that we have to draw on the funds of technical progress to make compensation for certain injuries which the earth has received, principally at the hands of man. These injuries can be put as follows under four principal heads:

Exhaustion of the Soil is the first. This is the spendthrift process of taking more from the earth by agriculture than is restored to it, and thus lessening its fertility. This evil, known as *exhaustive farming*, *earth-butchery*, or *Raubbau*, may be a serious injury; but in such a case the exhaustive farming is generally quite as much a consequence as a cause of poverty and suffering, as for example among the negro slaves in the United States and the tenants-at-will in Ireland during the first part of this century, or again in British India, where the tax on salt, combined with the lack of trees, by reducing the number of cattle and driving the natives to use dung

for fuel, impoverishes the soil. Hence the remedy in all such cases is quite as much moral as technical.

In England it is otherwise; for by our senseless system of sewage, by which the greatest source of phosphoric acid is sent into the rivers and seas, combined with a highly intensive system of agriculture, and absurd fattening of beasts, there would have been extreme earth-butchery had we not for years past been importing goods far in excess of our exports, and had we not for years past been ransacking the world for fertilisers: guano, coprolites, bone-dust, and nitrate of soda. No wonder we have alarmists who tell us the earth is losing her primal fertility: forgetful that the sterilisation is artificial; that each hour of rest and each shower of rain is reparatory; and that though cultivation cannot be kept up *ad infinitum* at a very high pitch of intensity, it can be at a low pitch. And thus, Sir William Crookes, who rightly condemns the annual loss of sixteen million pounds in the United Kingdom by waste of sewage, also points out the possibilities of drawing nitrogen with the help of electricity from the air. (*The Wheat Problem*, 1899.)

Exhaustion of Minerals is the second injury.—Here the process of compensation by improvement is very clear; for although mine after mine, and deposit after deposit has been exhausted, from the silver mines of Attica to the tin mines of Cornwall, still, by the discovery of new stores of minerals, of new methods of mining, and new uses for the produce, the world was never so well supplied as at present, and is not likely in any future that we can foresee to be less well supplied than at present. But the case is very different for particular nations, and the vast stores of wealth that England has in her coal-fields, Russia and the United States in their petroleum springs, Chili in her nitrate deposits, may be exhausted in the comparatively near future.

Diminution of Useful Animals and Plants, and Increase of Noxious, is the third injury.—For example, the sea-cow has been wholly extirpated, the seal, walrus, sea-otter, beaver, bison, and various kinds of birds grievously diminished; and by this destruction of birds the growth of mischievous insects has been fostered. An enormous destruction of fish in the North Seas is the result of taking them when immature, and threatens the future supply of soles, plaice, turbot, and brill. Europeans have introduced rabbits into Australia, and thereby ruined thousands of acres of pasture-land. The voracious and prolific brown rat (*mus decumanus*), appearing on the

lower Volga in the earlier part of the eighteenth century, has since then conquered Europe, and travelled in ships to the four quarters of the globe; the horrid weed that is the pest of our English rivers, the *Anacharsis adsinastrum*, is an importation from America.

§ 16. **Destruction of Forests the Worst Injury.**—This is distinct from the destruction of particular kinds of trees, like the cedar of Lebanon or the Kauri pine of New Zealand, and is by far the most terrible injury the earth has received at the hands of man. Millions of square miles have been turned into a desert, millions more have been grievously injured, by the destruction of woods on the slopes and crest of the mountains and along the shores of the sea. Alternations of flood and drought, watercourses empty or overflowed, hill-sides stripped of soil, valleys choked with stony *débris*, lowlands turned into malarious swamps, bitter or salt-laden winds sweeping unchecked over the land to the ruin of vegetation, sterilising sand or barren sea swallowing up fertile meadows, swarms of devouring insects with no birds to keep them in check; such have been according to local circumstances the various results of the destruction of the woods by the perverted industry of man.

Besides the countries round the Mediterranean, Arabia, Hindustan, Northern China, South Africa, parts of the United States and of Spanish America, Scotland, and Ireland, have all suffered from such destruction. Some of it is an old story, like the destruction of the forests on the east coasts of Scotland during the English wars of the fourteenth century, so that the great sand-bank of Moray and Aberdeenshire covers a land once fruitful and inhabited. Some is more recent, like the unwooding of Ireland in the seventeenth century, whereby seven million acres of her surface have been converted into naked rock or peat morass; an "Irish bog"

being as much man's doing as London Bridge. But most of the destruction has been accomplished precisely during the course of the Industrial Revolution, which has fostered the evil in several ways, chiefly by making easier the manipulation and transport of timber, and by using up whole forests for railway-sleepers. The evil indeed is now recognised by all wise statesmen; in many places further destruction has been slackened or arrested, in some even great works of reparation effected. Still this does not take away the tremendous loss the world has suffered and the need of a great compensation.

An excellent law in the United States allows a settler to have 160 acres extra if ten of them are planted within two years with forest-trees; and an excellent custom there establishes an *Arbor Day*, or general holiday, when all the schools are closed, and the school children plant trees.

Observe that where the destruction of woods is followed by none of the serious climatic evils mentioned above, nevertheless there are serious other losses which we must deduct from the seeming profits of the new use of the land: loss of ground for healthy exercise and admirable sports; loss of the materials for building and reparation and fuel; loss of manure and litter; loss of food for beasts, notably for swine. Because such losses have, as a matter of history, fallen chiefly on the poor, they have been too often overlooked.

§ 17. **Probable Secular Equilibrium.**—Enough has now been said to explain the seeming difficulty why the inhabitants of England after such long prosperity and after such a magnificent series of inventions, are not much better off materially than they are: for we have reduced the estimate of the Industrial Revolution to the level of reason, and have shown the losses for which it has had to serve as a compensation. The question is no doubt complicated, and nothing easier according to mental bias or the exigencies of controversy than to make an *ex parte* statement and distort alike the picture of the present and the past. But the reasonable view seems to point, as already indicated when we examined the law of increasing returns, to a certain

equilibrium in the physical condition of civilised man, all sorts of losses being balanced by all sorts of gains. And if this seems a more favourable view than is to be justified from the preceding chapters, let us remember that industrial progress has greatly facilitated the spread of civilised man over the globe, and thus has favoured that dispersion on which much of our welfare depends. (APPEND. C.)

§ 18. **Note on Machinery and the Demand for Labour.**—The technical and material effects of machinery on the workers have been already sufficiently indicated under the headings, "Work made unpleasant or injurious," and "Depreciation of faculties" in this chapter, and "Exaggerations on division of labour and machinery" in the previous chapter; while the moral effects, especially on family life, will be best considered later. But here a provisional examination can be made of the charge that machinery injures the working classes as a whole by diminishing the demand for labour. This is quite distinct from injury to particular workmen, whose acquired skill and experience are rendered useless by a new invention. For the point is not the demand for a particular kind of labour, but for labour in general. And if we make the two suppositions, that machinery is introduced gradually, and that no monopoly hinders its effect in cheapening the product, we may expect the demand for labour to be lessened only for a short time and then to be greater than before. For the consumers of the now cheapened product will have some portion of their income set free by the cheapness, and can employ this surplus to foster the production either of a larger quantity of the cheapened product or of something else; or they can employ the surplus in ways that require more non-industrial labour (as an extra maid or groom); and since in either case there is an increased demand for labour, the more versatile of the workmen displaced by machinery are likely to find speedy employment.

True the displaced workmen, if highly specialised, may be in a sad plight, and urgently require help. *How* they are to be helped must depend on circumstances that are too various to allow a general statement; but this can be said in general, that like all others expropriated *pro bono publico* they have a just claim for compensation, and that the cost of the compensation should fall on those whose position is bettered

by the expropriation, or if the benefit is widespread, then on the nation at large. Observe also that where in fact there is not the smallest prospect of any such compensation being given, we must not lightly condemn the workpeople, as though they were stupid or wicked, if they seek to right this gross wrong by destroying machinery, for example when in the evil times in England at the beginning of the nineteenth century they broke knitting-frames (an act made punishable with death in 1812 and for which many were hung), or even destroyed whole factories. For much must be pardoned in a struggle for self-preservation.

It follows from what has gone before, that a sudden and widespread introduction of machinery might be very injurious, causing a whole generation of workmen to be displaced and to languish in misery or else lay a heavy burden on the rest of the country for their compensation. But such a case is rather conceivable than likely, or even possible; and the nearest approximation seems to be where there has been misdirected production, and so much labour spent in making preparatory wealth, such as railways, that for a time there is not enough enjoyable wealth such as food or clothing. Mill's hypothetical example (I. vi. 3) may serve us: "If the whole of the railways, which, during the speculative madness of 1845, obtained the sanction of Parliament, had been constructed in the times fixed for the completion of each, this improbable contingency would most likely have been realised"—the contingency being an excess of the means of production and a deficiency in the means of consumption.

Ricardo indeed makes the matter no unlikely or impossible contingency; but declares his conviction "that the substitution of machinery for human labour is often very injurious to the interest of the class of labourers," and "that the opinion entertained by the labouring class, that the employment of machinery is frequently detrimental to their interests, is not founded on prejudice and error, but is conformable to the correct principles of political economy." (*Principles of Political Economy and Taxation*, c. xxxi. Edit. Gonner.) But if we examine his reasoning closely we shall find that he is really thinking of the case of diminishing intensity of production, the artificial withholding of natural resources (whereon see *infra*, c. ix. §§ 15, 16). Hence machinery is merely the occasion and not the cause of the injury to the working classes in his hypothetical case, which is analogous, as Mill saw (I. vi. 2) to the case where the working class were injured and partly destroyed by "clearances" in England in the sixteenth century, in the North of Scotland at the beginning and in Ireland in the middle of the nineteenth century.

And in another way poor lifeless machinery has had a share in the blame that belongs wholly to living men. Its introduction has been made the occasion of destroying the old guild organisation and the old independence of the workmen, as in the struggle at the beginning of the nineteenth century to introduce an improved rotatory printing press in London and labour-saving frames into the hosiery trade of Nottingham. So about the year 1832 Babbage (quoted by Hobson, *Evolution of Modern Capitalism*, p. 249) wrote that "one of the most singular advantages we derive from machinery is the check it affords against the inattention, the idleness, or the knavery of human agents." In the battles between masters and men it has continued to be used as a weapon in the hands of the masters, and a means of quelling insubordination; and strikes have been an incentive to improved machinery, and improved machinery an incentive to strikes. But this is not part of the nature of things.

Finally, Mr. Hobson's conclusion that machinery tends to make employment more unstable and precarious (p. 243), seems to outrun the evidence, and to make a subordinate cause into a principal one. Let us rather hold fast to the principle of Professor Nicholson that the results of machinery "depend on the systems of industrial organisation, law, and morality dominant in the society we wish to consider." (*Effects of Machinery on Wages*. Edit. of 1892, p. 131.)

CHAPTER V.

INDUSTRIAL LOCALITY AND DIMENSIONS.

§ 1. **Reasons for the Locality of Industry.**—This chapter is of the nature of a corollary to the four preceding; for, given the productive capacities of the earth and of man, given also the organisation and progress of industry as explained above, then certain conclusions can be drawn relating to the locality and dimensions of industry.

That particular goods are produced at particular places and not everywhere is a fact too obvious to need illustration; but the reasons are not always obvious. It is easy indeed to see that the extractive industries (mines and quarries) cannot exist where there is no matter to be extracted, nor plants be cultivated which the soil and climate will not tolerate. But this tells us little: does not explain for example why beautiful building materials in Ireland lie unused, while the clay of the Thames valley is being converted into countless millions of ugly bricks; nor why so much beet-root is grown in France, so little in the United Kingdom; nor why cotton manufactures are concentrated in certain counties of England and hosiery in others. Such facts, indeed, can be explained; only the causes

are various and often act on each other and in different ways, so that it is difficult to foretell the localities of industry in the future though we may explain them in the past.

Thus, other things being the same, the place of enjoyment of the finished produce—the *domicile of the consumer*—is the place where all industries alike will be carried on. But then other things are not the same; for besides the physical diversities of the earth already spoken of, some goods are much less easily carried than others. Hence, clinging round every town and village and along every line of communication are likely to be zones of land devoted to particular branches of industry, the product of the inner zones being the least transportable, and of the outer zones the most transportable.

For example, the production of fresh fruit, fresh vegetables, fresh flowers, and fresh milk in Northern Europe and America are suburban industries, whereas growing wheat or breeding cattle can be done far away: only remember, economic distance is counted not by miles, but by the quickness, uninterruptedness, and safety to men and goods of the means of communication; and also that the regularity of these zones may be broken by physical diversities; and that, moreover, the domicile of the consumer may itself have been originally determined by these diversities.

Again, the localities of the various processes of manufacture are affected by the ease or difficulty with which the raw material, the finished product, and the accessories of production can be transported; and the place will be selected which *ceteris paribus* will allow the minimum costs of carriage. So the neighbourhood of forests for saw-mills, near the raw material; large towns for cabinet-making, near the consumers; coal-basins for a multitude of modern industries, near the fuel which is less transportable than their raw material or finished product. For it is cheaper to carry

cotton and wool to coal than *vice versa;* and thus the textile factories are not among the cotton plantations or on the sheep-downs, but over the coal-beds.

Where products are a joint result like beef, tallow, and hides, or like wheat and straw, fresh complication is introduced. Similarly, where crops are grown not so much for themselves as to prepare the ground for others.

§ 2. **Advantages of Concentration.**—Further, it is an advantage, quite distinct from proximity to consumers or to materials or to accessories, for industries to be concentrated in particular places, for example, the lace and hosiery manufacture in the Nottingham district, though it might have been located just as well round Manchester, or again lock-making in Staffordshire, though it might have been located just as well in Yorkshire. This kind of concentration is what is called *localisation of industry* in the strict sense. The grounds for it are manifold. There can be better technical training where many of the same trade are congregated together, more mutual help, greater likelihood of inventions, more use in common of markets, means of carriage, and machinery, and greater growth of *subsidiary industries*, such namely as supply materials and utilise refuse, to do which for a single factory would not be worth while. And in modern industry, especially where machinery is elaborate, it is a great gain to have close at hand those who can at once repair or replace any damage or loss of that machinery. Hence, although localisation is conspicuous in past economic history, different villages or towns having each as their speciality some particular trade, it is more conspicuous now when not

merely thousands but millions of customers are supplied from one centre.

This being so, it is clear how great is the advantage which a place gains by having the *first start* in an industry: it may even become the centre of a vast world-production, when a dozen other places would have done just as well had they only been the first in the field. No wonder, therefore, that Governments, which are rightly interested in the wealth and population of particular regions, not of the whole world, should endeavour to secure each for its own country the benefit of the law of increasing returns by the localisation of industry. Hence, protective laws (to be considered in the chapter on international trade in the Second Book); hence also the fostering of immigration to anticipate the slow (absolute) growth of a scanty population and to seize golden opportunities before it is too late.

Apart from protection, the localisation of industry can be affected by the fiscal policy of the Government, when it aims at getting a revenue from taxes on particular goods or industries. The restriction of opium-growing to certain localities of India, and the prohibition of tobacco-growing in the United Kingdom, are instances. Further, the abuses of feeble or tyrannical Governments, anarchy, injustice, or arbitrary taxation, will be far less injurious to simple and cheaply worked industries than to those that need elaborate organisation or costly apparatus.

§ 3. **Influence of the New Facilities of Transport.**—A word must be added on one result of the great changes during the nineteenth century in the methods and facilities of transport. Other changes and improvements have indeed had in previous times a great effect on the locality of

industry: new roads have opened new sources of supply, and lessened the importance of the old, and the changes of trade routes in the world's commerce have been a striking chapter in history; the general result being that some districts or countries have gained and others lost, the loss being rather less than the gain. But the revolution in transport by the introduction of steamships, and above all of railways, has done more than this, and produced as a portentous effect the concentration of population in large towns instead of being scattered in villages or homesteads over the country. This disproportionate growth of towns is one of the most striking features of the nineteenth century, and is seen in every country where the new methods of transport are much used: in the United Kingdom, in France, Germany, Belgium, in the United States, and in several of the States of South America and Australasia; sometimes the rural population has decreased, not merely relatively to the urban population, but absolutely, as in England and France, New England and East Germany.

§ 4. **The Explanation of Modern Urban Concentration.**—The reason for the modern growth of great towns is simple. It is not that cities are much more attractive than before, but that the new means of communication have removed the obstacles to the operation of that attraction. Religious, political, legal, medical, scientific, literary, and artistic business all draw people to dwell in towns where much of it alone can be transacted. Again, reasons of pleasure are potent magnets, both good

pleasure, as to be among one's friends, and bad pleasure, for which great cities offer much more abundant and above all much more secret opportunities than the country. Finally, the advantages of concerted labour make towns the seats of industry unless there is some grave drawback. The former drawback to both industry and residence was the cost of conveying food and raw material: the country might be dull, but it was cheap. The revolution in transport has not wholly removed this drawback to great cities, but has much lessened it. The result has been urban concentration bringing evils not indeed wholly new in themselves, but wholly new in their magnitude, and threatening to cancel all our gains from highly concerted labour and from industrial progress.

What the remedies are we must wait for a later chapter to examine: enough here, that the evils are remediable and the remedies efficient, even though the efficiency of the means of transport was to become twice as great as it is now. Observe that the distinction between rural and urban, which is so important, is not the same as the distinction between agricultural and manufacturing; for the rural population of England (as Marshall points out, pp. 353, 354) was of old, in a certain sense, manufacturing, each farm being a centre of spinning and weaving, baking and brewing, carpentering and tailoring; while, *vice versa*, the modern urban population, as far as making agricultural machinery, is, in a sense, agricultural.

§ 5. **Industrial Dimensions: Meaning of Industry and Business.**—Turning from locality to dimensions we are met with the difficulty of how industrial dimensions are to be measured. The very terms industry and business are not simple, nor is it simple what is meant by production on a large scale

(*la grande industrie, der Grossbetrieb*), and by production on a small scale (*la petite industrie, der Kleinbetrieb*).

First let us take the term *an industry* to mean an aggregate of labour and capital devoted to the production of wealth; and since production is not a single and uniform process, there can be as many industries as there are varieties of production. How to classify them is merely a matter of convenience: in the present condition of Europe and America the most convenient is, perhaps, to make four main heads: (A) organic industries, dealing with living plants and animals, and subdivided into horticulture, agriculture, stock-raising, forestry, and fishing; (B) extractive industries, such as mining and quarrying; (C) manufacturing industries divisible into the four subdivisions, the textile and clothing trades, secondly metal-working, thirdly, the building trades, and fourthly, all the rest under the title of miscellaneous; (D) commercial industries subdivisible into carrying by land, carrying by sea, banking, wholesale dealing, and retail dealing. And each of these subdivisions, especially in manufactures and commerce, can be subdivided again as long as the labour and capital is sufficiently distinct from that of others as to allow of separate management.

Now the test of *industrial dimensions*, of the *size* of industry, or of the *scale* on which production is carried on, is the amount of capital and labour under the effective management of a definite person (whether an individual or a body), and used for a definite operation or set of connected operations.

And according as this amount is large, small, or intermediate, we can say that there is industry on a large scale, or on a small scale, or on an intermediate scale.

The term *business* can be applied to this unit of industrial operation, the unity being based as already said on unity of management.

This definition does not escape all difficulties; for what constitutes management or direction is not always clear, and at what point a man is so controlled by others as no longer to have the effective management. Thus if the manager of a boot factory lessens the work done on the premises, but gives out more leather to be made into boots at the workmen's homes, and turns out twice the number of boots he did before, is this an increase or a decrease in the size of industry? Again, is a large estate let out to metayer tenants, as often in America to negroes, to be called agriculture on a large scale because the landlord exercises considerable superintendence over the whole estate: or on a small scale because each negro manages his own little farm? And if a brewer owns fifty separate public-houses worked by publicans who tremble and obey him: is this to be called trade on a large or on a small scale? Only observe it is of little consequence what answer we give: but of great consequence that we be well-informed of the real relations of the different classes of society whatever names we give to them and their industries.

We must be careful not to confound the dimensions of the *property* of a particular person with the dimensions of a particular *business;* for though influencing each other they are distinct, and though often in practice they come to the same thing, often they do not. Thus an Irish landlord may own a hundred small farms: this does not make them one large farm; a thousand Lancashire shareholders may own one great joint-stock factory at Oldham: this does not make the great factory a thousand small ones.

§ 6. **Varieties of Large-Scale and Small-Scale of Business.**—Let us now aim at somewhat greater precision touching the terms small and large. A *small business*, whether farm or workshop, is where the whole of the management and the whole of the

manual work can be done by a single family, and is sufficient for their entire occupation. A *large business* is where the management alone entirely occupies a man of the higher classes, whether it be the management of a large farm, or ship, or factory, or bank, or warehouse. Between the two are many intermediate degrees; and then beyond on one side we see a *miniature business* which does not occupy the whole time of a family; on the other side a *colossal business* requiring for the mere management the exclusive attention of more than one highly trained man.

If a colossal business becomes overgrown, it can be called a *monster business;* and if a miniature one becomes shrunken, it can be called a *dwarf business*, such deformities meaning wasteful production from the national point of view, like the *latifundia* of Pliny's time, or like the cases of *morcellement* in France.

Dimensions also may be *mistaken*, too large for one set of advantages, too small for another. In England, for example, it is said that an arable farm if over twelve acres should not be less than 100. Observe that many farms, commonly spoken of as large, would not come up to this standard, and would have to be spoken of as intermediate. "A so-called large farm does not employ a tenth part of the labour which is collected in a factory of moderate dimensions." (Marshall, p. 370.) And size is not measured by area: the more extensive the cultivation, the smaller the area needed for a "large" farm. Thus most of the American occupiers of the 160 acre farms in the West, are only small farmers, so little intensive is the cultivation, and they correspond to the peasant farmers of France and Germany; whereas a farm of 160 acres in Middlesex or Kent cultivated with the intensity proper to the surroundings, would certainly not be business on a small scale, but at least on an intermediate scale.

§ 7. **Respective Advantages.** — Most of the advantages of concerted labour, already set forth in Chapter iii., will apply to a large business much

more than to a small one. The saving in the use of machinery and the utilisation of varieties of capacity are, perhaps, the two most conspicuous advantages of production on a large scale; and since the Industrial Revolution has in a great many branches of industry introduced scientific training and elaborate machinery where formerly simple training and implements were in use, the transformation of the dimensions of industry has been witnessed in many countries during the nineteenth century. Small industries have been superseded by intermediate, and intermediate by large or colossal, notably in the textile trades, in iron-works, and in means of transport. Why the transformation has not been more universal is easy to understand if we recall some of the limitations and drawbacks to concerted labour.

Thus, great as the improvement has been in our means of transport, many things remain so hard to carry, that unless they are produced among a dense population they must for lack of customers be produced on a small scale; so in the building trades amid rural and thinly-peopled districts, and in the quarrying or brickmaking preliminary to building; and only in a very large city could the manifold work known as repairing and doing odd jobs be concentrated in the hands of large contractors. Again, the risk or certainty of misdirected production if an industry is on a large scale, may keep it small or intermediate, as in the superior kind of tailoring, dressmaking, and bootmaking, where there can be no wholesale production if the customers are to be suitably arrayed. In other cases the greater risk of dishonesty and the need of keeping everything under the master's eye is often decisive in preventing great factories for work in gold, silver, and jewellery. Then, again, the risk of carelessness unless the person primarily interested himself does or superintends every detail, sometimes gives a decisive superiority to small production. So notably in garden cultivation and where the careful treatment of trees, like olive, almond, fig,

mulberry, orange or lemon-trees, sometimes too of vines, is essential to a large crop; or where the soil being kept up by terraces or fertilised by irrigation, requires to be dealt with rather by the square yard than by the acre. And further, there are some special advantages of industry on a small scale where it enables objects of enjoyment to be utilised as means of production, and non-industrial labour to be utilised as industrial, thus killing two birds with one stone. So notably by the dwelling-house being used as a workshop, the kitchen fire and domestic light as an industrial force and illuminant, the meetings of families or neighbours as an occasion of useful work, days of extra work among peasants in various parts of the globe being thus converted into festival-days; and all this with great saving of buildings, fuel, light, and exertion. The household account-books also will suffice for the very simple book-keeping that small industry requires; and in agriculture, as the Chinese show us, there is (or ought to be) an immense saving in the fact of manure being secured gratis, a saving of costly and often wasteful system of draining, and a saving of the whole apparatus of horses and waggons.

§ 8. **Complexity of the Question of Dimensions.**—We have thus to study a hundred peculiarities of time, place, and industry before we can decide what in each case is to be desired. And unfortunately we cannot assume that the better dimensions will eliminate the worse; for in fact the continuance or introduction of a particular scale of industry may be the result, not of good influences, but of evil.

Thus small farms may be supplanted by large, not in order that produce may be increased, but that certain persons may get a larger share of the diminished produce, as in Italy after the Second Punic War, in England during the sixteenth century, and in Ireland during the nineteenth. Again, bad laws on the transfer of property *inter vivos* or *post mortem*, may cause farms to be unduly reduced in size, and many a profitable large business to be broken up, as in France; or may render difficult, as in England, the proper breaking up of large farms into small. The growth of great factories may be fostered by the managers being allowed the power of overworking the operatives, especially women and children, as in England before the factory laws were made efficient;

while conversely, bad laws on lending and bankruptcy, on adulteration and fraud, may favour unscrupulous petty merchants at the expense of those who have a name and a position to lose, and may foster the petty shopkeeper by enabling him to defraud the poorer classes or hold them enthralled to him by debt. Above all the helplessness of uncombined workers, men or women, scattered in small workshops or in their own homes, and *de jure* or *de facto*, unprotected by law, has encouraged in all the great towns of Europe and America the growth of business on a small scale, where the work is precarious, the conditions horribly insanitary, the workers incredibly overworked and underpaid, notably in the cheap clothing and cheap furniture trades.

§ 9. **Conclusion on Large Undertakings and Small.**—It seems from the foregoing examples that no particular industrial dimensions are in themselves any security of social welfare, or in themselves incompatible with it; for social welfare is distinct from the mechanisms of production.

Lest this conclusion be misunderstood, remember, as already explained, that dimensions of property and dimensions of business are not of necessity the same thing; for a single person may receive most of the profits of a number of small businesses (as a fish-salesman those of the fishermen); or a number of persons share the profits of a single large business (as the many shareholders of a great railway). Thus the injury to social welfare from property being concentrated in few hands does not follow as a matter of course from industry being concentrated in few businesses; and *vice versa*. True, there is a connexion, something like that already considered between machinery and misery; and concentration of business has been made an occasion of concentration of property and unjust enrichment. Also the particular case of a given country may call for the direct preservation of handicraftsmen and small shopkeepers (as possibly in modern Germany and Austria). But in general the simple rule is to hinder all unfairness, extortion, and fraud; all oppression of the weak by the strong; and then to let dimensions settle themselves, as being in themselves a matter of indifference.

§ 10. **Is Agriculture an Exception?**—Agriculture indeed may seem an exception to this rule,

as there is great authority for saying that a flourishing yeomanry and peasantry, implying a large number of intermediate and small farmers, are a necessity for true national welfare. And a great confirmation of this ancient view is to be found in the United States, where, judged by the standards of religion, morals, home life, true culture and true happiness, the farmers of the West (a class corresponding to the extinct English yeomen and to the existing Rhenish *Bauern*) stand far above the urban and manufacturing classes. (See *inter alia* the evidence in W. A. Wyckoff, *The Workers*, 1898–1899.) Indeed, to preserve such farmers in America and to restore them in England is one of the objects of this work. But the essential point for social welfare is not that their farms are of a certain size, but that their families have a rural home and rural property. And these two characteristics of rural residence and a stake in the soil are possible even if yeomen and peasant farmers were absent, and the country was covered by colossal farms and dotted with rural factories. What indeed would be necessary would be a corresponding multiplication of *miniature* agricultural industry, namely, that every cottage of every worker on the colossal farms or in the factories should have its rood of land attached to it for the proper life and work of all the members of the family.

Professor Marshall well points out (*Principles*, p. 742) the advantage to the public interest of there being in every district very small holdings, which can be worked by people who have some other occupation, and also allotments and large gardens. "They increase the number of people who

are working in the open air with their heads and their hands: they give to the agricultural labourer a stepping-stone upwards, prevent him from being compelled to leave agriculture to find some scope for his ambition, and thus check the great evil of the continued flow of the ablest and bravest farm lads to the towns. They break the monotony of existence, they give a healthy change from indoor life, they offer scope for variety of character and for the play of fancy and imagination in the arrangement of individual life; they afford a counter-attraction to the grosser and baser pleasures; they often enable a family to hold together that would otherwise have to separate; under favourable conditions they improve considerably the material conditions of the worker; and they diminish the fretting as well as the positive loss caused by the inevitable interruptions of their ordinary work."

§ 11. **Probabilities for the Future.**—The issue is uncertain because the causes are numerous and conflicting. We can reckon, however, for shipping, commerce, and some kinds of manufactures that the process of elimination of the smaller traders and makers by the larger will continue with the increase in ease of communications, in possible number of customers, and in elaboration and expense of machinery.

In these cases we can announce, what Mr. Hobson announces too generally, the growing size of the business unit. "In retail trade . . . . the economics of large-scale production are giving more and more prominence to the Universal Provider, and a large number of local shops are falling into the hands of companies. Large syndicates of capital at Smithfield are owning butchers' shops in most large towns; the drapery, jewellery, shoe trade are more and more passing into the hands of large companies; while an increased proportion of tobacconists, publicans, grocers and other retailers are practically but agents of large capitalist firms." (Hobson, *Evolution of Modern Capitalism*, p. 89.) Spinning mills and flour mills in England are lessening in number but increasing in size. And the business unit is growing more complex by subdivision of processes and varieties of products under one management. "In a modern shoe factory in the United States there are sixty-four distinct processes. . . .

The subsidiary process of packing, the manufacture of packing-cases, the printing of labels, &c., are taken on in many factories. . . . Finding that goods advertise one another, manufacturers are frequently induced to add new departments to their business." (*Ibid.* pp. 94, 95.)

Nevertheless there seems a permanent field open for small masters in subsidiary trades such as blacksmiths, bell-hangers, plumbers, glaziers, carpenters, sweeps, or house-painters; and in satisfying wants that require scientific or artistic skill, wants ever multiplying in a highly cultivated society (see Nicholson, *Polit. Econ.* I. 130, 131), and the ease of obtaining technical information by means of trade journals, technical schools, and the transmission of patterns and samples, tells in favour of small dealers and manufacturers; and above all the development of transmission of power, allowing small motors to be cheaply multiplied and energy to be decentralised.

So between 1880 and 1890 the hydraulic transmission of power from the rapid Rhone saved the watch and jewellery trade of Geneva. A much more important and widespread auxiliary of small-scale production appears to be the electric transmission of power, first made practicable about 1891, and supplied, for example, to the hand-looms in the ribbon manufactures of St. Etienne. (See Nicholson, l.c., and Prince Kropotkin in the *Nineteenth Century*, August, 1898, and again, August, 1900, where he shows the persistance of small industry in England.)

The conditions of climate, where a long winter blocks all agricultural work for many months seems favourable to small industry as better able to be intermittent. This is one reason for the vigour of the Swiss house industries in spite of the competition of factories (well described in the *Economic Journal*, June, 1896); and a still more conspicuous instance is that of Russia, where of recent years *pari passu* with the marvellous development of factories, there has been a no less marvellous development of village industries. "Among them are to be

found weaving of every description of cotton, linen, wool and silk fabrics, leather work of every sort, shoemaking, tailoring; wood work of every kind, from boat, cart and sledge building to the construction of furniture of great value and of highly artistic and original designs; metal work of almost every description, from the national *samovar* to, of late, machinery, especially knitting machines, portions of which are supplied to them in a more or less finished state by German and Belgian houses; cutlery, agricultural implements, pottery, and utensils of all kinds needed for local use. Besides all these are an immense number of articles that might be grouped together as 'bazaar-goods'—toys, pipes, cigarette-holders, boxes carved and enamelled, many of great beauty, musical instruments and carved wooden, bone, and horn objects of almost every kind. Besides the large amount of these goods required for the internal trade of the country, many are exported chiefly to Persia and the Asiatic dominions of Russia, while of late years new markets have been found for many of them within the Chinese Empire." (See a well-informed correspondent of the *Times*, 16th August, 1898, 5th and 7th April, 1899.)

§ 12. **Future of Agriculture.**—Under certain conditions, namely, in the level plains of temperate regions, where artificial irrigation is not needed, and where fruit trees are not of prime importance, and where great intensity of production is not required, and where in consequence steam power and machinery can be largely used, there seems a future for large or colossal farms. But these conditions are by comparison exceptional; the greater part of the globe seems likely to be cultivated as heretofore in small or intermediate farms, and the growth of rural factories, like those that flourish in Norway and Wurtemberg, seems likely to be advanced much by the possibilities (already named) of the transmission of power, and to bring about, as a happy consequence, a corresponding growth of miniature rural holdings. *See* APPENDIX D.

§ 13. **Business Management: the Entrepreneur.**—To complete our notion of industrial dimensions, or the scale of business, we must consider the management of business, whether single or plural, and if plural, what is the arrangement between the several managers. The matter has gained fresh importance from the Industrial Revolution, which has issued in a sort of contradiction; for on the one hand by the frequent vast increase in dimensions, plural management has become in many cases a necessity; on the other hand, single management is required by the speculative character of business, and the advantage those get who can act uncontrolled, in secret, without delay, and with the utmost energy. Much of production has in fact during the last hundred years been assimilated to the business of merchant adventurers; and a term being wanted to express the manager of a large and more or less speculative business, the word *entrepreneur* has been generally adopted, and his qualifications called *business ability*.

The word "enterpriser" is not current English; the word "employer" is too wide, including small masters; the word "undertaker" is appropriated to one trade; and thus, unless we use cumbrous phrases like "business undertaker" or "speculative employer," we have to fall back on entrepreneur.

§ 14. **Two Kinds of Business Ability.**—Since the Industrial Revolution began, wherever the relations between the richer and poorer classes have been left unregulated by law, or association, or custom, or religion, business ability, implying personal success, has been of two kinds, one of them raising the entrepreneur to be a *captain of*

industry, and consisting in beneficent knowledge and skill, power of choosing the right times for production, the right goods for sale, and of selecting efficient subordinates, putting the right men in the right places, knowing what novelties are really practical improvements, which departments of the business are most profitable and to be developed, which less profitable and to be curtailed, and what provision is to be made against contingencies; the other kind lowering the entrepreneur to be an *exploiteur* or *sweater*, and consisting in a stony heart, a brazen forehead, a deceitful tongue, the power of exacting from the workpeople the utmost work, of taking the utmost advantage of the weakness or ignorance of others, the art of ruining rivals most utterly and expeditiously, and of enticing the utmost possible number of victims to indulge in depraved consumption.

Naturally these two kinds of ability are often combined in the same man to a certain degree, who, for example, may be a generous captain of his workpeople, and an unscrupulous destroyer of his rivals. Moreover, failure may be due, sometimes to the lack of the first kind of ability—because a man is stupid and incompetent; and sometimes to the lack of the second kind of ability—because a man is honest and generous.

The earlier English economists of the nineteenth century, in particular J. S. Mill (*Political Economy*, Bk. II. ch. iii. § 3), failed to see the importance of the entrepreneur, and considered his remuneration as the wages of mere superintendence. "You might as well call whist superintending the cards." (Bagehot, *Economic Studies*, p. 257 of 1895 Edit.) One of the merits of Walker was to emphasise the neglected importance of the entrepreneur, nowhere more conspicuous than in his own country, the United States, in the middle of the nineteenth century. But failing to distinguish properly the two kinds of business ability, he draws much too bright a picture of the successful man of business, and lays too much blame on the unsuccessful or "no-profit employer." Professor

Nicholson (*Political Economy*, I. pp. 127—129) rightly warns us not to make too much of the mere contractor, or to forget the skilled professional men, such as civil engineers, architects, chemists, electricians, lawyers, bankers and accountants; without whom the contractor, though with a thousand men in his employment, could do nothing.

§ 15. **Three Main Varieties of Business Partnerships.**—The character of plural business has changed no less than that of single business during the nineteenth century. The historical varieties and the legal forms in which they have been clad are very numerous; but with sufficient accuracy for our purpose we can distinguish three kinds of business partnership or association, applicable to former times as well as to our own. One is the business firm, another the business company, and the third the co-operative business.

The **Business Firm** or private partnership is where the owners and managers are few in number, and where the whole or a considerable portion of the business capital belongs to the managers.

Both these kinds of private partnership, namely without sleeping partners or with them, were much used in the Middle Ages under the titles respectively of *societas* and *commenda*. (See Ashley, *Economic History and Theory*, Part II. pp. 416—421.) By some accident the second kind disappeared from English law, while it remained abroad, for example in the French partnership *en commandite*, allowing limited liability to the sleeping partners, while the liability of the working partners is unlimited. The refusal of our law to recognise it was justly blamed by Mill (*Political Economy*, V. ix. 7); but the spread of limited liability companies has made it unimportant.

The **Business Company** is where the associates combine their capital, and are so numerous as to cause the necessity of delegated management. This

is their difficulty and disadvantage, but in many circumstances is outweighed by the advantage of being able to combine many small capitals into one great one, and thereby gain the advantages of large-scale industry; and further, they are not liable, like a private firm, to be disturbed by the individual or domestic troubles of the members.

A conspicuous example of such companies in former times was among the Romans of the last two centuries of the Republic. The collection of the revenue throughout the vast dominions of Rome, the execution of the many and grand public works, *e.g.*, roads and aqueducts, the furnishing of supplies and transports for the Roman armies, and the working the public domain, such as the mines—all this was done by contract with the *publicani*, who formed joint-stock companies (*societates*) with transferable shares (*partes*). See A. Deloume, *Les manieurs d'argent à Rome*, 1892.

The third main variety of business partnership is what is now generally known as **Co-operative Business**, where the associates are mainly of the poorer classes, and where they work together or put their small capitals together for common profit, whether in agriculture, cattle-raising, manufacturing, mining, transport, lending, buying or selling.

Such co-operation is very ancient and wide-spread. For example, the ancient Welsh *co-aration*, where the produce was divided into twelve parts and distributed a part each to the ploughman, the driver, the owner of the iron, of the woodwork, and of each of the eight oxen. (Nicholson, *Political Economy*, I. p. 35.) In Upper Italy, from at least the tenth to the fifteenth century, co-operative associations of peasants to work the land (*consortati agricoli*) were frequent; and the parish church was the meeting-place for electing officers and settling rules. In the fifteenth-century England, the village mill and village oven are examples of co-operative corn-grinding and baking. In China, from time immemorial,

each small district possesses a well-organised local co-operative bank, so that no small peasant is ever at a loss for money for a real improvement. (Wolff, *People's Banks*, pp. 129, 130.) Many other examples are given by Mr. Wolff; to which may be added the most conspicuous of all, the Russian *artels*, which can be traced back for many centuries, and which, though sometimes numbering over sixty members, all of the working classes, are harmoniously led by an elected elder and other elected officers, and with equity and peace divide the proceeds of their common work. To be found in all trades, they are most conspicuous in the works connected with great cities and the carrying trade, as navvies, paviors, porters, masons, house-painters, dock labourers; and their mutual responsibility is the ground of the great trust put in them See also N. Pinkus in *The Economic Journal*, Dec. 1902.

§ 16. **Modern Development of Joint-Stock Companies.**—The technical changes brought about by the Industrial Revolution, and the simultaneous social, political, and legal changes, have greatly affected business management, and besides giving scope to the entrepreneur, of whom we have already spoken, has also affected the forms of business partnership, in particular, calling forth a double development, one of joint-stock companies with limited liability, the other of co-operation adapted to the new conditions of business. Let us look a little at both these developments.

Joint-stock companies with limited liability, namely, with their capital divided into transferable shares, and the members only liable for the shares they hold, were not generally permitted by English law till 1855, previously requiring a special Act of Parliament or Royal Grant. Since that time their spread has been marvellous through all lands under European influence. They are most conspicuous in works requiring a colossal capital, and where

colossal dimensions and uniformity of management are of the greatest advantage, such as railways, steam-packet services, docks, canals, the supply to large towns of water, gas, and electricity, and the business of banking and insurance; but the joint-stock principle has been found so convenient, that it has extended beyond these limits to almost every kind of manufacturing and commercial undertaking, and sometimes even to agriculture.

The view of Adam Smith (Bk. V. ch. i. Part III. Art. 1 *ad fin.*) that without an exclusive privilege joint-stock companies could only succeed in trades whose operations were capable of being reduced to a routine, namely, banking, insurance, canals, and water supply, was partly a narrow induction from the conditions of his own time, and partly a deduction from his exaggerated principle of the all importance of personal self-interest as a stimulus to exertion. Mill pointed out (I. ix. 2) the insufficiency of this view, marking the advantage of the publicity of joint-stock business for some undertakings, and of the intelligent and highly educated managers fostered by it for all, and the possibility of kindling zeal by giving managers a share of the profits. In fact, most of those who conduct the smaller mercantile joint-stock companies, which have sprung up so abundantly since Mill's time, are in one way or another keenly interested in the success of the undertaking.

How the shares of joint-stock companies are dealt with on stock exchanges, and the abuses connected with such dealing, will be explained in Book II. How the holders of shares and receivers of dividends are in general in the position of *rentiers* receiving interest, not of *entrepreneurs* receiving profit, will be explained in Book III.

§ 17. **Alleged Social Evil of Joint-Stock Companies.**—Some writers, more especially among the socialists, have denounced the evils of *joint-stock capitalism* or the prevalence of these companies: how they break off all friendly personal relations between masters and workmen; how all rich people

can be like absentee landlords, drawing income from their property without the smallest care or superintendence, or the least recognition of any responsibility for its proper management or for the proper treatment of those who work on it; how the actual managers and real masters with whom the work-people come in contact, are like ruthless agents or sub-contractors, and have as their function to provide the shareholders with the largest possible dividends, and to treat the work-people simply as machinery from which the greatest gain is to be got at the smallest cost.

But this is a one-sided view. Such ill-treatment of the work-people is possible, and too often has been actual; but is no necessary consequence of joint-stock companies any more than the frauds of company promoters. It is true that they cause a separation of income from the responsibilities of the property whence it is drawn; but there are many other kinds of income of the same character, such as royalties, ground-rents, annuities, interest from loans and from public funds; and though mischief may arise from the prevalence of these kinds of income, it need not. For where a humane and reasonable Government and the spirit of religion are not wanting, the fair treatment of the working-classes can be secured, whatever may be the forms of business. Indeed it is often easier to protect them when employed by joint-stock companies; because the companies are more permanent and visible than individual employers or private partnerships; and there is an obvious fairness that the special legal

privileges they enjoy should bring special legal responsibilities.

§ 18. **Modern Development of Co-operation.**— What the development of joint-stock companies has been to the richer classes and to large-scale industry, the development of co-operation has been to the poorer classes and to small-scale industry. There has not indeed been the same uniformity of development as in the case of the joint-stock companies, but great variety according to difference of country and circumstances. In the North of England and Scotland co-operative retail trade has spread immensely since the humble beginnings of the Rochdale Pioneers in 1844 (described by Mill, IV. vii. 6), with the happy results of protecting the members from fraudulent weights and measures, from adulteration, from overcharge; also from extravagance and running into debt, all payments being for ready-money; besides fostering thrift, forethought, and above all friendly working together and a sense of common interest. Wholesale trading has been successfully added to the work, and a certain amount of manufacturing; and taking the British co-operative societies that have made returns, they grew during the ten years 1882–92 in numbers from 1145 to 1682; in membership from about 654,000 to about 1,222,000; in share capital from over seven million pounds to over fifteen millions; in annual trade done from over twenty-six to over forty-nine millions.

The growth has continued, and in 1899, the membership was about one and a half million, representing (with

families) about six million consumers or one-sixth of the inhabitants.

The co-operative movement in various forms is as conspicuous outside Great Britain as within. Thus, in Russia, the land of workmen's associations, the old-world organisations have been adapted to new conditions, and in order to forestall factory competition, or to overcome it, the village industries have adopted a regular system of division of labour, for example in the manufacture of enamelled wooden spoons, so much in use throughout Eastern Europe and Asia, each spoon passes through the hands of fifteen specialists, each speciality confined mostly to one village; moreover, machinery, the common property of village associations, has been introduced, and the peasants unite to build a *svietelka*, or large work-room for their common use.

The growth of co-operative banking during the second half of the nineteenth century, beginning in West Germany, and spreading to North Italy, has been as striking as the trading co-operation of Great Britain and the manufacturing co-operation of Russia, and has given new life to small producers and traders, and, above all, to the peasantry, protecting them from usury and giving a premium to good conduct. And in both countries two different kinds of bank minister to the respective needs of the more substantial small traders, and the much poorer classes, particularly the penurious small cultivators, the two kinds in Germany being respectively the Schulze-Delitzsch credit associations and the Raiffeisen loan banks. (See the details in Mr. H. W. Wolff's *People's Banks*, 2nd edit. 1896.) An analogous movement has spread to France, where quite recently rural co-operative associations (called *syndicats agricoles*) have covered the country, and have undertaken purchases in common, sales in common, agricultural instruments to be used in common, common flour mills besides mutual loans and insurance, not to speak of promoting technical education and social harmony. Simultaneously, the Belgian peasant's league among both Flemings and Walloons has been doing the same. In Denmark, the small farmers by co-operative creameries and co-operative bacon-curing factories (of the latter about 20 were at work in 1896), have secured the London market for their butter and bacon. And Ireland, though not beginning rural co-operation till the last decade of the nineteenth century, has made a marvellous advance in a brief time, having already, according to figures published in July, 1899, some 390 co-operative societies of farmers, with some 40,000 members, or, counting their families, some 200,000.

For recent statistics in various countries, see Mr. Wolff's paper on the spread of Co-operation, in the *Economic Review*, July, 1900, pp. 373—388, and *ibid.* Sept. 1902 for Mr. Dawson on Raiffeisen banks.

§ 19. **Significance of the Co-operative Movement.**—The moral of this great movement is that just as the joint-stock movement has been the adaptation of the property of the upper and middle classes to the conditions, social and technical, of modern times, so the co-operative movement has been a similar adaptation of artisan and peasant property. And in both cases, as we must expect in every social adaptation, there have been mistakes and failures in abundance. Mr. Benjamin Jones has written an interesting book on *Co-operative Production* (Oxford, 1894), of which a great part is a record of the failure of a great crowd of co-operative efforts, particularly in manufacturing industry. And the failure of a great crowd of joint-stock companies is too familiar to need a book to record it. But there is a difference between the cases, that while these latter failures are mostly due to folly with fraud, the co-operative failures are mostly due to folly without fraud; and sometimes not even to folly, but to the misfortune of having powerful and unscrupulous enemies. Hence the duty of Government is different in the two cases. For whereas joint-stock companies require a careful watch and manifold regulations to prevent grave abuses, co-operative societies require the help and protection of Government, and all the more, because co-operation is to a great extent the modern substitute for the guild property and the multiform rights of

common formerly enjoyed by the poorer classes, and taken from them by the legislation of economic liberalism, which in the century about 1775 to 1875 gained the upper hand in the British Isles, and almost every country on the European continent.

§ 20. **Confusion and Illusion about Co-operation.**—An immense literature, much of it controversial, obscures the question of co-operation. The word is ambiguous and may mean any kind of concerted action; but the mistakes are generally more than verbal, and are due to social theories only explainable historically. Co-operation as a social movement was first a protest against the individualism and competition-worship of the classical political economists in the first half of the nineteenth century (see Cummins, in the *Quarterly Journal of Economics*, July, 1890), and was promoted by the Socialist, Robert Owen, and later by the English Christian Socialists and by the French Revolutionists of 1848, in opposition to "Manchester economics" and "middle-class selfishness." Co-operative associations were to be a panacea for the terrible sufferings of the poorer classes at that time; and the belief in this remedy was encouraged by the belief then wide-spread in the natural goodness and natural equality of man. But when the vain hopes of the Chartists and of the revolutionary period were over, the views on co-operation went through a *transformation scene*. For seeing that in France and Germany socialism was plainly not dead, and that in England the trades unions were plainly a growing power, the political economists, to whom socialism and trades unions were alike an abomination, came to see in co-operation a valuable ally against these foes, and began to bestow blessings on it instead of curses. In France the co-operative societies were declared to be "the surest and most generous remedy for the error and perils of socialism." In Germany, their great promoter, Schulze-Delitzsch, was the champion of the economists against the socialist, Lassalle. In England, where trades unions had for another quarter of a century to remain under the ban both of political opinion and political economy, co-operation appeared as an attractive solution of labour troubles, all the more because the dismal doctrine of the wages fund (*infra*, Bk. III. c. iv. § 11) emphasised by Mill, Fawcett, and Cairnes, made economists glad of a plan that promised to raise the mass of the population from being

wage-receivers to be profit-receivers; the lack of historical knowledge made them think co-operation one of the grand inventions of the nineteenth century; their non-recognition of the functions of the entrepreneur masked one great difficulty in the way of co-operative business, the lack of subordination and unity of purpose; while the success of the Rochdale Pioneers was rashly made the ground for believing in the success of co-operation in quite different circumstances. But in the seventies came a *second transformation scene.* By a natural reaction Walker and other economists, who laid stress on the functions of the entrepreneur, and saw the folly of the attempt to eliminate the employer and have no more masters, failed to see the real future that lay before co-operation as a means of eliminating (to a great extent) the middleman, and of giving new life to small industries, especially to small farming. So the four conditions laid down by Walker for successful co-operation, that the industry is of a sort to be best carried on by a small group of workmen, substantially of similar strength and skill, with small prime outlay for tools and materials, and to supply mainly or wholly a local market (*Political Economy*, p. 349), are not applicable to modern co-operation (as can be seen from our previous examples) any more than Adam Smith's conditions are applicable to modern joint-stock companies. Then also the tardy knowledge that co-operation was very ancient, has led economists like P. Leroy-Beaulieu and Pantaleoni into the fresh mistake of regarding the great co-operative movement as a mere temporary revival of a very primitive and rude form of industrial union.

This revived antagonism of political economy to co-operation is indeed partly due to the exaggerated language of many co-operative champions, who have represented their doctrine as "the co-operative faith," and as a means to regenerate society and abolish hired labour. In reality, between reckless and unscrupulous competition on the one side, and the brotherly love and equality of a religious order on the other, there is an immense field for ordinary men, neither knaves nor saints; all sorts of mixtures of motives; all sorts of friendly associations and honourable rivalry. The mistake of these champions was not in attempting to moralise trade and employment, but in attempting to do what was above the ordinary possibilities of human nature, and failing to distinguish the counsels of perfection from the commandments. Hence disillusion as a painful consequence; for neither has the wage-system nor competition been abolished; many co-operative societies have failed for lack of energy, harmony, and good sense; many of the most

successful have shown themselves eager for profits and dividends, and ready to employ fellow-workmen as mere hired labourers; and bitter complaints are raised of "the desertion of the co-operative principle" and "the failure of co-operation" (*e.g.*, *Economic Review*, July, 1897). By this confusion of ideas, from which so eminent an economist as M. Gide is not free (see his article in the *Economic Journal*, December, 1898), prevents many people from seeing the significance, which I have already explained, of the co-operative movement; and it is misrepresented as a Quixotic attempt to eliminate employers, instead of a very practical and efficacious attempt to eliminate wasteful intermediaries and to benefit the property of the humbler classes of society.

CHAPTER VI.

THEORY OF CONSUMPTION.

§ 1. **Explanation of Terms.**—The meaning of consumption or enjoyment, namely, the act of using economic goods for immediate personal satisfaction, has been sufficiently explained in the Prologue, as well as the two kinds of expenditure, the one for the purpose of income, the other for the purpose of consumption. The latter, or non-industrial expenditure, is not so much a different notion from consumption as rather the financial aspect of it. Some writers indeed would exclude from consumption all expenditure in almsgiving and all payments for the wages of domestics. Suffice it that here they are included, and that the present chapter on the theory and the next on the particulars of consumption, could be called chapters on spending income as distinct from getting it. The same matter may be treated under such titles as "human wants and their satisfaction," or again, the "theory and particulars of demand." But the treatment is the important point, not the title.

§ 2. **Former Neglect of Consumption by English Economists.**—This may partly have been the result of the wish to keep economics separate from ethics, since the spending of wealth obviously involved moral questions, partly the result

of the stress laid by Ricardo on the cost of goods, and not their utility, as the ground of value, partly the result of the fact that English political economy expressed the mind of the richer trading classes of England, pictured by Scott in Donald's exclamation: "Up wi' their English pride, has sae muckle, and kens sae little how to guide it." (*Legend of Montrose*, ch. iv.) Whatever the cause, the fact remains that Ruskin could write in 1870: "I have fearlessly declared your so-called science of political economy to be no science, because namely it has omitted the study of exactly the most important branch of the business—the study of *spending*." (*Crown of Wild Olive*, § 77. Edit. 1895.) The great French work of Le Play, published in 1854, and the brilliant economic treatise of the German Roscher, both giving great attention to consumption, were then practically unknown in England, and Syme's *Outline of an Industrial Science*, in 1876, and Moffat's *Economy of Consumption*, in 1878, were unheeded. But in the last decade of the nineteenth century the importance of consumption has become generally recognised, even exaggerated.

§ 3. **Limitation of Human Wants.**—One of the most familiar facts of consumption is the limitation of man's capacity and wish to consume. Some goods are only wanted singly or in small numbers, like a watch, a book, a house, a sideboard, an overcoat, a lap-dog. Others indeed are wanted in quantities that are indefinite; and alterations in price induce the buyer, not simply to buy or not to buy, but to buy more or less. Such are the finer kinds of food and drink, of recreation and adornment. Thus up to a certain point more butcher's meat and game are eaten, more tea, wine, and spirits are drunk, more tobacco is smoked, more excursions are made, the lower in each case the price. But this is only up to a certain point, for there is a limit to our capacity for enjoyment, and if too many objects of enjoyment are heaped on us,

they lose all positive value for us; nay, they cumber the ground, and like white elephants, have a negative value.

There is an analogous limitation for particular instruments of production. Thus a spade is of great value to a small cottager for use in his garden; a second spade may be occasionally handy, but not a third or fourth, while a dozen would be sadly in the way.

§ 4. **Theory of Marginal Value.**—From the fact of the diminishing capacity of goods to be used or enjoyed it follows that where the same article is divisible into distinct portions like pounds of tea or ounces of tobacco, the price that a man actually pays for the whole quantity is in general no indication of what he would be willing to pay for certain portions. The price of two shillings, for example, which he actually pays for each of the twenty pounds of tea he buys, only shows what he is willing to pay for the last pound, and expresses the value to him of this last portion only, and not of the whole. Otherwise, if the price rose to half-a-crown a pound he would buy no tea at all, whereas in reality he would probably buy some, but not so much as before, say fifteen pounds. This would mean that the value to him of the fifteenth pound was something above half-a-crown, and of the sixteenth pound something below. The gradual diminution of his purchases of tea as the price rose would depend on a hundred domestic circumstances; all we can say is, that for such an article as tea, which is not of absolute necessity, each man has his price, above which he will buy none; and each man has

his point of satiety, beyond which he will buy no more, however low the price may sink.

The same principle of diminishing value is seen when we use a similar object for different purposes, of which some are more important to us than others; for example, water, which we use for drinking, for cooking, for washing our persons, for scouring our floors. What we are actually paying for water merely shows what we are willing to pay for the least important purpose for which we are using it, and by no means what we might be willing to pay for a more important purpose.

As far as technical terms are wanted to express the distinctions named above, we may call the last portion of a stock of homogenous goods the *marginal portion*, and the last use of a stock of goods that have various uses, *the marginal use;* and the individual value to us of the last portion, *the marginal value;* while the limits, not to our wants in general, but to each separate want, can be called the *law of satiable wants* or *diminishing utility.* (Marshall, 166, 167.)

§ 5. **Use of the Theory of Marginal Value.**—We obtain by these distinctions a more correct analysis of the forces influencing demand, and consequently prices; we can understand better what scarcity means, and we can answer more clearly or concisely the difficulties sometimes called the *paradoxes of value.* The first, that the most useful things like air and water usually have little or no value; the second, that useful things like iron and copper are not valued as highly as less useful things like gold or diamonds; the third, that by decreasing the supply of a commodity, and consequently the total quantity of something useful, the total value may be increased and *vice versa.* The classical illustrations of the last paradox are the burning by the Dutch of part of their spices to get a higher price for the whole; and, *vice versa*, the observation: "There was an abundant harvest, and the farmers were ruined." These paradoxes can be concisely explained by saying that price expresses marginal value, not total value; that the abundance

of iron and air reduces the marginal value of them, and consequently their price, to little or nothing; that the Dutch by causing the marginal value of spices to rise were able to raise the price, and that the farmers suffered from the lowering of the marginal value of corn.

§ 6. **Exaggerated into the Theory of Marginal Utility.**—But this refinement of the theory of price has been exaggerated by the *Austrian School of Economists*, who have made it the starting-point of an attempt to revolutionise the whole science and language of economics. Their merit is in emphasising the importance of consumption, the connection of economics with psychology, the insufficiency of the Ricardian theory of value and of cost of production. But this had been done previously by Ruskin among ourselves, and the Austrian doctrines have called forth a vast literature of verbal disputations and fruitless misunderstandings. Above all, they rest on a fundamental delusion of Utilitarianism, that human desires and aversions, pleasure and pain, welfare and ill-faring, can be accurately measured, translated into terms of money, and expressed in shillings and pence, and that political economy is a calculus of pleasure and pain, a study of man as striving how to reach the maximum of utility with the minimum of disutility. (Cf. D. G. Ritchie, *Darwin and Hegel*, ch. v. *What are economic laws ?*)

It is no doubt quite true that many economic goods can be measured according to their number, weight, or dimensions, sometimes even according to their muscular or mechanical force. Many economic goods can also be measured by their price. But this measure, even where applicable, is imperfect, only telling us that Peter desires A more than B; and not being able to tell us whether Peter desires A more than Paul does. And for a multitude of economic goods even this imperfect measure fails; for they have no price. As the poet says: "No legacy so rich as honesty;" and again: "Our content is our best having;" nor is there any money measurement or satisfaction gauge for domestic and industrial peace, for willing youth, sober manhood, and honoured old age.

§ 7. **Professor Marshall on Marginal Utility.**—He is by no means to be classed as belonging to the Austrian School already named; but his treatment of what he calls marginal utility seems defective. First, his employment of the term utility instead of value is liable to mislead, having a Utilitarian origin (in Jevons' "final utility" and Wieser's *Grenznutzen*), and having a meaning that fluctuates between objective usefulness or true benefit on the one side, and on the other, subjective valuation, or what satisfies a desire however

morbid, or serves a purpose however malicious. Then Marshall's formula for the law of diminishing utility is as follows: "The *total utility* of a thing to any one (that is, the total pleasure or other benefit it yields him) increases with every increase in his stock of it, but not as fast as his stock increases. If his stock of it increases at a uniform rate the benefit derived from it increases at a diminishing rate." (p. 168.) But no sooner made, this formula must be modified. It is scarcely applicable except where goods, like tea or cloth, can be divided and sold in small quantities without serious loss; and it requires stretching to be applicable to complete articles of clothing, like hats or boots; and a great deal of stretching to be applicable to objects like horses and carriages, gardens, land, and houses. *See* APPENDIX E.

Then again, the diminution of value may set in after a certain point rather than at the beginning. Enjoyment on a large scale may not only be absolutely but relatively greater than enjoyment on a small scale, a full draught giving more in proportion than a sip, a hundred square yards of garden than ten square yards, ten days' rest at the sea-side than one day. And the same kind of object when increased in quantity may have greater capacity of giving variety of enjoyment, a house and grounds of double the rental, or a recreation ground of double the area, allowing a mode of life and amusement more than double as pleasant.

Moreover, the implicit condition of the law, that no time should be allowed for change of character, sets narrow limits to its application. For changes of character are often most rapid and effective on a man's demand. The appetite can be whetted, and passions grow rapidly with each fresh acquisition, use or indulgence, thus rapidly increasing the demand for strong drinks (as an example), or soap and water, or opium, or field upon field. *Crescit amor nummi quantum ipsa pecunia crevit.* Indeed, apart from change of character, ambition is insatiable; "expenditures for social advancement are not a necessity at all, but they are accompanied with almost undiminished enjoyment as their amount increases." (Hadley, *Economics*, p. 324.)

Hence it seems misleading to speak of the "general law that the utility to any one of an additional pound diminishes with the number of pounds he already has" (Marshall, p. 210); or to say that "a shilling is the measure of less pleasure to a rich man than a poor one." (p. 80.) All we are justified in saying is that as the expenditure of the poorer class is more generally employed in satisfying more urgent needs than the expenditure of the rich, therefore small additions to or subtractions from their incomes are a greater benefit or injury

respectively, than the same sums added to or subtracted from the incomes of the richer classes. This is an important truth for taxation, and a good ground for securing to the poorer classes the necessaries and decencies of life, even at the cost of cutting off from the rich many superfluities. But once we reach superfluities, calculations seem illusory; nor is there evidence that his amusements give more satisfaction to a poor man than to a rich man; nor that a gift of £1,000 would give more pleasure to a dock labourer than to his foreman; or more to the foreman than to a professional man in fair practice or to a senior clerk in the Treasury.

It should be added that Professor Marshall quits after a while the illusory estimates of pleasure or satisfaction; and turning to consider true benefit and lasting happiness, he rightly praises, in the manner of the ancient moralists, the excellence of a moderate income obtained by moderate work. (pp. 210—212.)

§ 8. **Consumption as an Art.**—There is an art in consumption no less than in production; and in the one case as in the other we may, quite apart from any question of morality, go the wrong way to a particular end. Thus the mistakes of a stupid farmer or unskilful tradesman have their counterpart in the mistakes of the ill-taught housewife who fails to provide as well for her husband and children as her neighbour does with half the income; or in the mistake of many excursionists and travellers on pleasure bent, who at half the cost might have got twice the pleasure. Only remember in economic science mere calculations of pleasure or of pain are misleading, the enjoyment of economic goods being inseparably bound up with questions of morality.

For example, many goods can be used in common with immense advantage because a large number of persons can use them at the same time or one after the other, and each person be almost as well served as if he had the sole and separate use of them. Public libraries, museums, picture-galleries, parks, schools, baths, wash-houses, restaurants,

concert-rooms, are examples. But the proposal of the Communists to carry this common use further, to suppress all private ownership and private use of the objects of enjoyment, and to gather the inhabitants into vast palaces instead of scattered dwellings, we instantly reject as being fatal to family life, nor will hear their pleas about the wonderful economies and the multiplication of the degrees of pleasure, such arithmetic being out of place.

Again, the great phenomenon of misdirected consumption already described, though it implies a great technical mistake, is something much more than a technical mistake, being both an effect and a cause of moral disorder.

§ 9. **Necessaries, Absolute and Conventional.** —The Christian Church puts among her counsels of perfection the abandonment of all private wealth and the consumption of only the necessaries of life. But she also teaches us that a supernatural call, which only some receive, is required for the practice of this perfection. And although Christians are bound by a precept to be detached from all earthly goods and to practise self-sacrifice, this is in no contradiction with the further doctrine that objects of enjoyment are not an evil in themselves, and that the use of them in a reasonable measure is a help towards our fulfilling the purpose of our life. To understand this measure we must distinguish between *necessaries* and *superfluities*, each of which must be further subdivided into two kinds. The first kind of necessaries are usually called *absolute necessaries* (*bona naturæ necessaria*), and are the food, the clothing, the shelter, and whatever else is needful, according to the circumstances of their work, constitution, and surroundings, to keep men in good health, not half-starved and inefficient. That every one should enjoy these goods is obvious.

The second kind are usually called *conventional necessaries* or *decencies* (*bona stutui necessaria*), and are the goods proper to a man's station in life, without which he cannot decently pass his life according to the conditions and rank both of himself and of others he has to provide for. Naturally such goods vary with a man's station, but for the lowest are neither few nor unimportant. A house, for example, to be a fit home for a family, must be much more than the shelter indispensable for health; and it is unseemly for the lowest class, though health may require no more, to be clad in a shapeless patchwork of rags. And so far from its being a duty to forego the enjoyment of this class of goods, it would as a rule be reprehensible for any one to give away so much of his property that from the residue he could not live decently (*convenienter*) according to his own station in life and the work that has fallen to him. For, as St. Thomas says, no one should live an unbecoming life.

Professor Marshall gives as the criterion of conventional necessaries, that in order to obtain them the average man and woman will sacrifice some things which are necessary for efficiency. Hence if wages are not high enough to supply conventional necessaries, they are not high enough to secure efficiency. (p. 139.) Adam Smith (Bk. V. ch. ii. Part II. art. iv.) puts among necessaries the conventional necessaries of the lowest rank of people, namely, whatever the custom of the country renders it discreditable to them to be without; and refers to leather shoes, a necessary for both sexes in England, for men in Scotland, for neither men nor women in France. He uses the term luxuries for all superfluities and for the conventional necessaries of all above the lowest rank. But the word "luxury" in English (unlike the French *luxe* and German *Luxus*) is so habitually used with a note of blame, that it seems safest to keep it to what is blameworthy.

The notion of conventional necessaries is legal as well as economic. Thus in the case of a young man of noble family, it was decided at the Westminster County Court on November 13th, 1896, that, in consideration of his rank and social position, wine was a necessary to him within the meaning of the Act. In like manner the Supreme Court of Iowa justified a decision (in 1897) on the ground that a common stud or button "might be as much out of place on the shirt front of a person of fashion or fortune as a diamond in that of one who earns his bread in the sweat of his face." (Cited by Professor Davidson in the *International Journal of Ethics*, October, 1898, p. 65.)

§ 10. **Standard of Life.**—This phrase is another way of expressing conventional necessaries; and though of general application, is specially used in regard to those of the working classes who live by wages. For even when they are unprotected by organisation, by religion, or by law, they enjoy a certain protection by the custom of conventional necessaries, and will refuse to work at their trade for less wages than will suffice to supply these necessaries. Thus the higher the standard of life, the higher the minimum of wages; for example, the diet of wheaten bread and meat and beer, and the decent Sunday clothing and time for recreation required by the standard of the English mining and manufacturing workmen, imply higher minimum wages than those of southern rural England or of Germany, where the customary diet and clothing is less expensive; and again, the standard and consequent minimum wages of Polish workers is lower than those of Germans and higher than those of Hindus or Chinese. But whether high or low, the standard exists; and although it can be

altered, it cannot (short of some great national catastrophe) be altered suddenly.

This subject is well treated by S. and B. Webb, *Industrial Democracy*, pp. 332, 333, 693—702. The conventional minimum of wages, they point out, has no assignable relation to the cost of actual subsistence. "The young engineer or plumber, unencumbered by wife or child, indignantly refuses to work for a wage upon which millions of his fellow-citizens not only exist, but marry and bring up families." (p. 694.) An interesting historical question, the origin of various standards of life, awaits investigation. The Jews form a curious exception, their workers having no standard of life; but as their rule is the exceptional, this very exception proves the rule.

The standard of life is sometimes called the *standard of comfort*, a term liable to mislead, as custom and comfort often disagree, and comfort has a note of mere material or selfish enjoyment. Marshall calls his conventional necessaries the standard of comfort; and reserves the term standard of life for methods of consumption and of living generally, including activities as well as wants, and regarding energy, intelligence, and self-respect. (pp. 571, 777.) But this widening of the term seems to render it less useful.

The notion of the standard of life was gravely misunderstood by the classical economists, culminating in Mill, who looked at it, not as implying a minimum wage, below which the workers would refuse to work, but as implying that if the wage was too low to pay for their standard of life, they would still work, but would refuse to rear children, so that in fifteen or twenty years time the supply of labourers would run short, and wages would (so they reasoned) rise high enough to meet the expenses of the standard. But apart from this theory being unsupported by facts, it failed quite as an explanation of how the standard was kept up year after year before any such reduction of numbers could be carried out. (S. and B. Webb, *Industrial Democracy*, p. 696.)

§ 11. **Superfluities.**—Those economic goods which are neither absolute nor conventional necessaries, can be called superfluities (*bona naturæ et statui superflua*). They are of two kinds, one being the ornaments or elegancies of life, and the use of

which, if not praiseworthy, is at least justifiable; and the other being luxuries the use of which is always reprehensible.

No hard and fast line separates the two kinds of superfluities, but yet they can be adequately distinguished. Goods which serve primarily towards intellectual or æsthetic training, or towards the enjoyment of science, literature, and art, are not to be called luxuries, nor again such goods as serve to afford ordinary comforts in home life, to avert fatigue in travelling, or to give amusements within limits which reason in each given case and in each station of life can without much difficulty assign. Moreover, on certain occasions of festivity and under other special circumstances, elaborate and costly goods may be enjoyed without blame, and the faithful, resplendent in silken garments, are invited in the ritual of the Church to praise God the Author of all good things. In particular where the superfluity is enjoyed in common with other persons there is less likelihood of luxury, more room for ornament, and a certain magnificence is suitable for the festivals of the State, and above all for religious worship.

§ 12. **When Superfluities are Luxuries.**—Superfluities are to be denounced as luxuries in the following cases: (1) When they minister to physical excess, as over-eating, drunkenness, or taking opium otherwise than as a medicine. (2) When there is a disproportion between the sum spent on them and the income of the man who enjoys them. In this aspect the same physical object may be a luxury to one man and not to another, a luxury in one place and period and not in another, as butcher's meat twice a day, a luxury to an English ploughman, not to a squire; or tea twice a day, a luxury to a London seamstress a century ago, but not so now. (3) When there is a disproportion between the sum spent on them and the result, such as food, of which the main

merit is the costliness, not the taste or the wholesomeness, as when the Romans drank wine in which pearls had been dissolved, or ate dishes of trained singing birds; or mere ostentation in dress and perverse exaggerations of the fashions, as men's shoes in the fourteenth century two feet long. (4) When in their preparation or enjoyment they inevitably bring suffering on others, as dresses or wall papers of such colour or texture as only to be made by some unhealthy process, or a park made by destroying the homes of the poor.

Of the four cases of luxury given above, the first and second, as is plain, can be found among the poorer as well as among the richer classes of society. The third has been admirably illustrated by Shakespeare:

> To gild refinèd gold, to paint the lily,
> To throw a perfume on the violet,
> To smooth the ice, or add another hue
> Unto the rainbow, or with taper light
> To seek the beauteous eye of heaven to garnish,
> Is wasteful and ridiculous excess.
>
> (*King John*, iv. 2.)

§ 13. **Opposing Mistakes on Consumption.**—Two pairs of opposite errors deserve notice. First, to confound luxuries with justifiable superfluities, and even with conventional necessaries, denouncing them all, and holding up the Indian fakir or Diogenes in his tub to our admiration. This is akin to the Manichæan error on the essential evil of all matter, and presents Christian asceticism in caricature, implying generally ignorance of Catholic theology and of the distinction between the counsels and the precepts.

Opposite to it is the doctrine of many economists that the great means of promoting civilisation is to excite new wants, which will arouse exertion and invention to procure their gratification. Its prevalence is to be explained on the following grounds. First, many uncivilised tribes appeared careless of many of the goods really needful if man is to lead a rational existence in an orderly home, and in such cases the desideratum seemed to be that they should be aroused to wish for such goods; and also some degraded people among

civilised nations appeared in a similar plight. But the economists extended this possible remedy for abnormal and morbid conditions of life, as though it was useful in ordinary conditions; and they forgot the grave necessity for man to make war on his passions of avarice, ostentation, and sensuality; nay, the practice—truly diabolical—of instilling among poor savages the passion for strong drink so as to arouse their activity, has found an apology in political economy. Then again the mode of life of the urban middle classes of England and France in the middle of the nineteenth century was looked on as a model for all classes, and those who lived otherwise to be more or less savages; and hence there was blindness to the beauty and dignity of the frugal and simple life of a God-fearing peasantry, with its few requirements but true culture and nobility, such as pourtrayed, for example, in the Spanish tales of Fernan Cabellero. Lastly, many economists, deluded by Malthusianism, have preached up the benefits of new wants to "antagonise the procreative force," and praised a high standard of life and the desire of decencies as "the great preventive check to population." (Walker, *Political Economy*, 3rd Edit., pp. 307—310.) So one illusion supports another.

Of the second pair of mistakes the first can be expressed in Adam Smith's words: "Every prodigal appears to be a public enemy, and every frugal man a public benefactor." (Bk. II. ch. iii.) This proposition errs by exaggeration, and implies the possibility of indefinite accumulation of wealth and that the poor are supported by the rich; when really, as we shall see later, accumulation is limited by population, and the poor can be said to support the rich not more inaccurately than *vice versa*.

The opposite error we can already answer more fully, the error being that the luxurious expenditure of the rich is needed for trade and the support of the poor, or in Mr. Hobson's restatement, that the root evil of depressed trade is under-consumption. (*Evolution of Modern Capitalism*, p. 182.) Taken generally, such a proposition is untenable; for one man's food and clothing cannot at the same time support and shelter another man; and if I give up using lace and velvet, the labour and capital devoted to its production can be turned to some other purpose, such as making warm underclothing for the poor. But the proposition in question is only partly mistaken: in part it expresses the consciousness of the following truths: (*a*) That if the alternative is between, on the one hand, withholding national resources, leaving fields and mills unworked or little worked, as will be explained in the next chapter, and on the other hand, "luxurious" con-

sumption, the latter alternative is best for the poor, as the makers of the "luxuries" find employment, and often the process of consumption requires servants, like grooms, gamekeepers, and cooks, who can get a living by their ministrations (*b*) That if suddenly consumption were to cease without any withholding of resources, much labour and property would have been misdirected into a particular industry to supply the "luxury," and would be rendered inefficient. (*c*) That a great stimulus to exertion and great preservative from vicious habits, and consequently a great promoter of national wealth is precisely the so-called "unproductive" consumption of delicacies by sick or old people, or by little children: to provide which is often the moral and material salvation of the young and the strong. (*d*) That inequality is a good thing, and the existence of a rich class indirectly a benefit to the whole nation, and that a rich class implies the consumption of superfluities, of which a varying percentage (human nature being what it is) will inevitably take the shape of luxuries.

But we can perfectly recognise these truths without having to praise, as beneficent employers of the poor, those who wear dresses at fifty guineas a piece, whose tables are spread with meats and wines so costly that their price would have fed many families for many years; and who in the midst of rare exotics and lavish illuminations and decorations dissipate in one single night's entertainment the labour of many men for many months. The extravagant festivals of the Renaissance, or in our own day the gorgeous displays of the American plutocracy, destroy far more employment than they give; and the selfish voluptuary or thoughtless man of fashion, cannot by any economic jugglery be changed into a philanthropist. (An excellent satire on this soothing fallacy can be found in Mr. Whiteing's tale, *No. 5 John Street.*)

CHAPTER VII.

PARTICULARS OF CONSUMPTION.

§ 1. **Ten Principal Heads of Consumption.**—Let us turn from the general to the particular, and let us distinguish for convenience ten principal heads of consumption: food, dwelling, fuel, clothing, furniture, medicine, education, worship, justice, and recreation.

As the details of the theory of consumption, though generally admitted to be a part of economics, are not to be found in ordinary economic treatises in English, the present writer can refer those to whom Le Play's large work *Les Ouvriers Européens* is inaccessible, to his own *Groundwork of Economics*, chapters vii.—xi. See also the small volume, compiled for the Economic Club, called *Family Budgets*, 1896.

I. Food.—This, the first head of consumption, is the primary and incessant want of man; a painful search after food and water is the almost ceaseless occupation of the poor natives in the Western and ill-watered half of Australia; while even in the most cultured of States, in Saxony in the middle of the nineteenth century, the expenditure on food and drink probably amounted in most families to more than one half of the whole.

Accurate calculations are difficult, because we ought to exclude from this head all elaborate expenses on food for banquets, which should be included under recreation, and—

a still more important exclusion—all drinking that is not a mere adjunct and accessory to taking food. Even then the greater and double difficulty remains of selecting typical families for observation (especially among urban populations), and of ascertaining the expenditure in each department (especially among peasants who consume much of their own produce without taking it to market). We can, however, say roughly that in Great Britain the percentage of income spent on food and drink among the working classes is more than double the percentage among the middle class. (E. Grubb, in *Economic Review*, July, 1899.)

It can be laid down that among most civilised nations the basis of nourishment has been some grain, with the addition of some fatty substance (like milk or vegetable oil). But excepting this general resemblance, we meet the most surprising diversity in the common foods of different nations, regions, and classes, and the most striking changes in the course of history.

Thus milk and the preparations from it, of prime importance among Europeans, are not touched by the three hundred millions and more of Chinese; the flesh of the pig, of prime importance in most of Europe and in China, is abominable to all Mahometans and Jews; beef, the English national dish, Chinese are indifferent to and Hindus loathe, as we in our turn loathe the flesh of horses or asses. And Europe has only in recent centuries adopted tea, coffee, sugar, and potatoes; Southern Europe only in recent centuries taken maize in large part as their staple food instead of barley or wheat. And whereas in Scotland in the sixteenth century the eels that abound there were salted and eaten in abundance, now the poorer classes in that country would as soon eat a toad as an eel.

Why these manifold diversities exist and manifold changes have occurred is an interesting department of history. But their importance is not to be exaggerated; for there can be many different courses of diet, all excellent; man is something more than

a stomach, and in general the food of a nation is very little the cause of its welfare or misery, but very much the effect.

The national dishes of every nation may be presumed to be peculiarly suitable to its circumstances, the result of long experience and traditional skill in the culinary art; for example, the two national dishes of Russia, fish pie (*perog*) and cabbage soup (*shtchee*), and in Texas and Mexico the maize cakes (*tortillas*) made by a peculiar process. But the art of cooking, like other arts, must be learnt and transmitted from one generation to another; a disorganisation of family life and irrational education may in a few years reduce a civilised population to the culinary level of Polynesians. Thus many Americans, in spite of large earnings, have no choice but to feed in great part on tinned provisions and rancid bacon; and amid the urban population of England, the high wages of the workpeople sometimes fail to secure them a decent meal at home, because their wives have not been given the capacity or the wish to be good cooks; and the downward progression in depraved consumption is fostered by the ease of buying close at hand the materials of makeshift meals, salted meats, sausages, pickles, or bad cakes and pastry; and a new source of mischief is the practice of preserving meat, fish, milk, and other perishable foods by means of chemicals such as boric acid, thereby rendering them indigestible.

In other cases a bad diet is due, not to disorganised family life, but to external pressure, like the unhealthy stinting of the use of salt in parts of India because of the lamentable salt tax, or of milk in parts of rural England because it is all sent away to the towns, or the miserable diet of mouldy maize causing the disease known as *pellagra* in Northern Italy, due to a sad combination of economic and political oppression.

§ 2. **Mistake of the Vegetarians.**—They say that man's teeth and stomach show that he ought not to be carnivorous, like beasts of prey, but frugivorous, and that the adoption of a vegetarian diet would root out disease and poverty, drunkenness and licentiousness. But man's nature is to be learnt not merely from his structure, but from his history: he would be much inferior to the apes if in fact he ought to have been simply frugivorous like them and has not been; the art of cooking renders him, unlike the apes, omnivorous; the use of meat is necessary or beneficial for some kinds of bodily and most kinds of brain work; nor is any extraordinary

prevalence of misery and wickedness recorded, as on the vegetarian hypothesis it ought to be, among the inhabitants of Argentina and New Zealand, where meat has formed for many years the main article of every one's diet.

Vegetarianism is to be accounted for by the sight of the wasteful and excessive consumption of meat, notably among domestic servants in the houses of the rich, with neither intellectual or bodily strain to justify it; by the sight of the misery among many of the poorer classes from their ignorance of the excellent and cheap food to be got from vegetable sources; and by the doctrine that animals have rights and that their life is sacred. The delusion therefore has a medical, a philanthropic, and a religious foundation.

§ 3. **Famines and their Prevention.**—The case of famine following the failure of crops appears as a great exception to the rule that food is not a cause but an effect of the condition of society. The exception, however, in most cases is only apparent; for in most cases the famine, if not the failure, is due to preventible causes. Observe with care how the three stages of prevention are as follows: *First*, the prevention of failure as far as possible by works of irrigation, drainage, embankments, and above all the preservation or planting of climatic woods, that prevent or mitigate the evils of drought, flood, and injurious insects. *Secondly*, the physical insurance against the evils of failure by multiplicity of staple crops—all are not likely to fail simultaneously; by multiplicity of easily-intercommunicating districts—all are not likely to be afflicted simultaneously; and by the provision through storage in good years of a supply for bad years. *Thirdly*, the moral insurance against famine, that is, such a state of laws and customs that the food at hand shall reach those who are in need of it.

Whenever we meet any serious mortality from famine, we may expect to find as an antecedent some grave neglect in one of these three stages of prevention.

Thus the famines following the overflow of the Yellow River in Northern China are probably due to neglect under the first head. The famine of Orissa in 1866 was mainly due to neglect under the second head: food had not been stored, and the country was accessible only by one line of road, approach by sea being blocked for part of the year; and nearly one million people died of hunger or its effects before food could be brought. But the approach of steamships to all islands, and the spread of a network of railways over all continents, form a new and great precaution under this second head. It is otherwise with the third head. For in Ireland, for example, at the time of the great famine of 1845-47, the greater part of the country was easily accessible, and moreover, of the two great crops, potatoes and grain, only the potatoes had failed, while the grain was scattered in abundance over the face of the country. But the grain was removed with great profit to shippers, corn merchants, and mealmongers, and rather more than a million people died of hunger or its effects. Still more destructive was the famine that from 1876 to 1878 swept away more than five million victims in various parts of India, not inaccessible like Orissa, but whither food might have been carried, and whence in the midst of famine, food was in fact exported.

The particular way of taking the proper precautions must vary with the country and the circumstances. Observe in general two points: first, that the less wide the area in communication, or the less efficient the means of communication, and the greater the risk of the wide-spread failure of crops, the more needful the accumulation of local stores of food sufficient for one or two years' consumption, a common precaution in old times in India; secondly, that the feeding of the people should be a first charge on the food grown in the

country, and that it should not be withheld or taken from them on the ground that a better price can be got for it elsewhere or later.

§ 4. **Homicidal "Political Economy."**—Adam Smith taught that the unrestrained, unlimited freedom of the corn trade was the only effectual preventive of the miseries of a famine. The grounds for this teaching were, *first*, a reaction against the popular delusion of his time that moral preventives of famine could avail without the physical, and that if the stock of food procurable was only enough for half the people, it could be made enough for all by the Government compelling its sale at moderate prices; *secondly*, the blind worship of his age for "natural liberty" and *laissez faire; thirdly*, the fallacy of thinking what was true in one case was true in all; and because England, wealthy, powerful, accessible in all parts, and with most of her poor in the position of labourers with masters interested in their not starving—because England in such circumstances could well trust to attracting the supplies of eager corn merchants in any scarcity, thinking that similar supplies would flow to any famine-stricken country.

But in reality free trade in food may aggravate a famine by drawing away supplies from countries and districts which are poor to those which are rich; and at best is of no avail for a poor peasantry whose crops have failed and who lack stored food and money. For free trade directs goods not necessarily to those who want most, but necessarily to those who pay most.

Nor is this mere theory. For in fact the characteristic doctrine of classical political economy, which we are considering, has caused during the nineteenth century not less than ten millions to perish of starvation in India and Ireland. This grave charge can be easily verified in regard to Ireland by any student of the documents regarding the famine of 1846–48, for example, in the speeches and letters of Sir Robert Peel, Lord John Russell, Sir Charles Trevelyan, Mr. Labouchere, and others. All effectual relief was paralysed by the fear among "men of education" of violating the "strict rules" or the "enlightened principles of Political Economy," or of doing anything by which "trade would be disturbed," or "the law respecting the supply of food;" and in a Treasury Minute their Lordships earnestly commended to the public "a just consideration for the interests of merchants and dealers in the free exercise of whose callings the public welfare is so deeply concerned." Similar doctrines produced similar effects in our Indian Empire. For example, in

February, 1866, when the civilian Lieutenant-Governor and his Revenue Board objected to "interfering with the laws of Political Economy," by the Government buying grain and sending it to Orissa, and the fatal delay cost a million lives. Happily, in the recent famines of 1897 and 1899–1900, traditional political economy has no longer been strong enough to set reason and humanity at defiance, and the Government has been able to save a large proportion of the famine-stricken. But there was great mortality in the Native States, the old system of storage of grain having gone, and no new system put in its place.

§ 5. **II. Dwellings.**—These form the second of the principal heads of consumption. In cold or damp regions considerable outlay is required for a healthy dwelling even of a poor family, though where building material is abundant, close at hand, like timber in mediæval Europe, the outlay is reduced to a minimum. How to reckon this outlay is often difficult: for where most people live in dwellings of their own, the annual cost is mostly in the shape of maintenance and repair, while considerable expenditure is only required at distant intervals. And where the dwelling serves in part as a workshop, it is in part to be reckoned as belonging to the capital of the occupants, not to their objects of enjoyment. The calculation is easier where the practice is common of living in hired dwellings; and in such cases we may lay down as a rough and ready rule, that the portion of a family's net income devoted to this head of expenditure ought not greatly to exceed ten per cent. of the whole income, and that if it rises to fifteen, twenty, or even twenty-five per cent., as in many modern towns, we may strongly suspect some oppression or abuse to be the cause.

The varieties of man's dwellings according to time, country, climate, building materials, skill in building, artistic sense, riches, rank, trade, laws of ownership, conditions of family life, of religion, and of morality, are almost endless, but are mostly more effects than causes. Thus the vast *hôtels* of old France were a sign, not a cause, of the prevalence there of joint-families: the small space allotted to nurseries in modern French houses, a sign, not a cause, of habitual small families. So again the common dining-halls for masters and servants in old castles, and the absolute separation in modern genteel residences of the servants' department from the rest of the house, are much more results than causes of the familiarity between different ranks in the one case, and the separation in the other. So, too, the secrecy of Hindu family life, and the separation of the sexes among Mahometans, find material expression in their dwellings, but are not caused by the dwellings.

§ 6. **Importance of Dwellings for the Poorer Classes.**—Among the poorer classes their dwellings can have a powerful influence for good or evil. The ideal is that each family should be in the secure possession of a house neither unhealthy, nor overcrowded, nor overcharged, and that adequate garden ground should surround it to enable the housewife and young children to find, with the plants, the animals, and the domestic industries, occupation and amusement at home. And the experience of past and present times shows that for the country people this ideal can be realised.

Realised it is largely at present in the United States and in the Sclavonic countries, and was during the last century in many parts of Europe, and under the Plantagenets in our own country. Observe that by *secure* is not meant that the head of the house is a full owner or peasant proprietor; for such a family may be very insecure, liable to be sold up, and turned out like so many luckless peasants in modern Italy. But we mean that the family is secure against eviction, whether by creditor or landlord. For rural England there is pressing need of such alteration in the law that every

agricultural labourer could be endowed with a secure homestead, namely, with a cottage and at least an acre of good ground around it or close to it, and be unable to borrow on this homestead, or sell it, or bequeath it away from his family. If such house and holding were charged with a perpetual quit-rent of half-a-crown a week, such sum would give a reasonable interest on the original outlay.

§ 7. **Grave Problem in Modern Towns.**—It is otherwise with the towns; and how to provide proper dwellings for the vast numbers of people now heaped together, is one of the most difficult problems and yet one of the most urgent. An explanation has already been given in the fifth chapter of the tremendous fact of *urban concentration*. Here we have to deal with its effects, how great multitudes in England and France, in Germany and the United States, have come to live in new and sad conditions. There is nothing new indeed in the existence of horrible quarters in great cities, the resort of extreme misery or extreme depravity: we have nothing worse to show than Hogarth's "Gin Lane." The novelty is not in the extremity but in the prevalence of horrors, and in the large percentage of the inhabitants who lack a decent habitation.

Thus Mr. Charles Booth reckoned for 1894 that in London 31·5 per cent of the inhabitants lived "crowded," and among these some 130,000 persons in families or groups of 4 to 12 persons, each group in one single room. In Scotland (Professor Nicholson tells us, *Polit. Econ.* I. p. 80), nearly a third of the population live in "houses" of one room, and over two-thirds in houses of one or two rooms. The evil, for which the Germans have the convenient term, *die Wohnungsnoth*, has a triple aspect, physical, moral, and financial; millions of families in those four countries named above, not to speak of other countries, are compelled by their circumstances to live in unhealthy dwellings, ill-drained, ill-ventilated, bad in construction, materials, and situation, lacking space and con-

veniences; are compelled again to be so crowded together and brought into such close quarters with others, that orderly family life, discipline, and morality are very difficult to preserve; are compelled again to pay for this wretched accommodation a sum that often exceeds twenty per cent. of their whole expenditure. And the three evils of unhealthiness, overcrowding, and extortion, foster one another and tend to produce a sickly, immoral, and helpless multitude. Thus an unhealthy house produces sickness, sickness poverty, poverty makes resistance to extortionate rent more hopeless than ever, and extortionate rent drives to the necessity of taking in lodgers, which in its turn may be ruinous to morality, and the ruin of morality brings further poverty and sickness, and the downward course becomes more and more irresistible.

The particular details can be filled in according to the particular circumstances of London, Liverpool, Manchester, Glasgow, Berlin, Paris, or New York. The "tenement-houses" of New York, unknown in the earlier part of this century, have spread to other cities of the Union, and display a spectacle of horror not often matched in the Old World. In Bombay, under European encouragement, the extremity of filth and overcrowding has been reached in the "chawls," vast new insanitary buildings constructed to hold 500 to 1,200 natives. Among ourselves the evil has been familiar to philanthropists for half a century, and from time to time, as in 1883, there has been public outcry, serious efforts at amendment, laws made or enforced, and benevolent associations formed; but with results as yet quite inadequate to the appalling evil which at one fell swoop snatches away from vast multitudes all the gain of a century of industrial progress.

§ 8. **Exaggerations and Mistakes.**—We must not imagine universal and horrible moral degradation in the "slums;" when in fact among the degraded are elements of good, and above all we can find amid the most miserable and unclean physical surroundings honest and pious families, like many of the poor Irish in Poplar in East London. It is true that for those with the habits and in the moral condition of modern English urban or even rural workpeople, decent family life cannot be expected unless they are provided with three sleeping-rooms, or two at the very least. But we blunder if we argue that all countries at all times where such accommodation has been absent, must have been morally degraded. In reality man is free, is not a slave of his surroundings; the influence of religion is all-powerful; *omnia munda mundis;* great variety has existed among different people, not concerning the fact and the need of modesty, but concerning the garments and the privacy required to secure it; and thus we

must not confuse what is needed by the *sancta simplicitas* of a pious country folk, with what is needed amid the sharp-witted licentiousness of towns. A classical example of the combination of bad dwellings with good life was afforded by rural Ireland during the first half of the nineteenth century, when several hundred thousand families lived each in a mud cabin containing one single room, and yet were a model in their morals for every age and time.

§ 9. **Means of Reformation.**—The circumstances of each country require separate consideration; but in general the principal and direct means of reformation will be the three following:

First, sanitary police regulations, such as the punishment of all owners of overcrowded dwellings, or of dwellings not provided with proper sanitary appliances; prohibition of all new buildings without proper provision of space, light, ventilation, drainage, water supply, and other adjuncts according to local specification; sequestration and demolition of insanitary dwellings whose owners cannot or will not replace them.

By themselves such negative provisions are not enough; for the increased expense of erecting or keeping up dwellings would so lessen the supply and intensify the demand, that the action of the regulations would create an almost irresistible temptation to their violation. And in fact the clearance of insanitary areas in London has often made matters worse by increasing the overcrowding in neighbouring areas.

Secondly, let there be responsibility of employers and owners for the decent dwellings of those who work in their employment or on their property, notably responsibility of Government, of large employers, and joint-stock companies. This touches the root of the evil: definite persons among the rich and powerful would have a definite obligation;

and what has been actually done, for example, in Cheshire the model village of Port Sunlight, and in Liguria the model dwellings for the Government dock workers at Spezia, shows what is possible.

If the strict enforcement of sanitary regulations made it a hard matter for those bound to provide dwellings to provide them in the towns, then precisely a most beneficial impetus would be given to decentralisation; and factories, just as they have moved from the centre of some manufacturing towns to the outskirts to allow warehouses, banks, and offices to occupy the centre, might be driven to move right away into the country or into the small country towns. Thus by reverting to the reasonable principle that the decent housing of the workmen in each industry shall be a first charge on the proceeds of that industry, we strike a real blow at the disastrous concentration of the people in great towns. *See* APPENDIX F.

Thirdly, where there is a monopoly of houses or of building land, authority should intervene to abate either the monopoly or monopoly prices.

In Great Britain, this can be done in ways like the following: (*a*) Owners of unoccupied land in urban districts to declare its site value, and be rated on their declaration, and (*b*) the local authorities to have power to acquire the land at this declared value for the purpose of erecting workmen's dwellings. (*c*) Great extension of communication at cheap fares with the outskirts of large towns by means of workmen's trains, electric trams, and light railways. Thus the Belgian Government Railways issue cheap weekly tickets to workmen for the double journey on the six week-days at 1s. for six miles and 1s. 2d. for twelve miles. (*d*) Workmen's dwellings in proper sanitary condition and let at a fair rental to be exempted partially or totally from rates and taxes. (*e*) Government loans at low rate of interest to be made to local authorities and even to private bodies and individuals (as formerly for surface drainage) for erecting sanitary and fair-rented dwellings.

Observe that by simultaneous reformation in town and country the danger is lessened of increasing the undue attractiveness of the towns by the provision in them of good dwellings at reasonable rates. Most of the measures just proposed could be applied *mutatis mutandis* to the badly-

housed farm labourers of central and southern England; and if special legal and financial favours were given to cottages surrounded with a rood of garden, the produce of the garden would solve the difficulty of paying rent out of low wages, and would enable sanitary cottages to be built at a fair profit. The Belgian law of 1889, establishing throughout Belgium local committees with powers and privileges to promote the supply of workmen's dwellings, is worthy of study and imitation.

§ 10. **III. Fuel and Light.**—These may be put together as a third head of consumption. The amount required will vary with climate, occupation, dress, and dwellings; the expense will further vary with the local abundance or scarcity of fuel.

Thus the thick clothing of the Chinese makes them almost independent of fires; a cottage with earthern walls and thatched roof requires far less fuel to warm it than if the walls were of thin brick and the roof of slate; the poorer classes in the North of England profit by the local abundance of coal; in former times the rural districts of Western Europe profited by the local abundance of wood or peat. The loss of this comparative advantage of the country as well as the cheap and brilliant lighting of modern towns are among the minor causes of urban concentration.

The three principal duties of Government in regard to fuel and light are as follows: *First*, to prevent artificial scarcity of fuel and the consequent cruel suffering among the poor, whether the cause of such scarcity be warfare between masters and workmen in coal-mines or gas-works, or the abolition of rights of common on moors or in woods, or the engrossing of fuel and the raising of the price by combinations to an exorbitant height.

Secondly, to prevent waste, like the destruction of forests, which in many cases can be checked by replanting being made obligatory; or waste like

that seen on a grand scale in England, where millions of chimneys of dwellings and factories discharge unconsumed carbon, with great waste of heating power and great damage to vegetation, buildings, and furniture. Here the public weal is in conflict with routine, negligence, fashion, and the private interest of certain owners and traders; and the prohibition of wasteful fire-places and furnaces, or if not this, then some other kind of sumptuary law is needed for the protection of the public weal and the due husbanding of the national resources.

Of all contrivances for the economy of fuel, perhaps the most efficient is that found in every dwelling of the Chinese in Manchuria, namely, the *k'ang*, which is a platform 2½ feet high, 5 feet broad, and of a length according to the size of the dwelling. Inside this platform a flue is carried up and down the whole length four or five times; at one end is the boiler where the family dinner is cooked, and in the yard is a chimney ten to twelve feet high, creating a draught through the flue. The inhabitants sit, eat, and sleep on the platform; and the quantity of fuel for heating it is so small as to be scarce credible. See H. E. James' *The Long White Mountain*, pp. 135—137.

Thirdly, it is the duty of Government to watch lest the introduction of cheap illumination be abused to prolong the hours of work, and even for little children to be forced to turn the night into day.

§ 11. **IV. Clothing and Personal Adornment.**—A suitable dress according to sex, age, occupation, rank, climate, and clothing materials, seems a want not very difficult to satisfy; but strangely enough in the history of the world, unsuitable garments have often been prevalent, worn partly by choice, partly by necessity; and there is no sign of pro-

gression; for we no sooner do better in one direction, than we do worse in another.

It even seems as though the nations that are or seem to be most civilised are the worst clad. Thus the men's dress of Western Europe and of America judged by any rational standard is less suitable than that of China; that of England under King Alfred was superior to that under Queen Victoria; the waterproof cape used by rich and poor in the middle ages, and known as *chape de pluie*, a better garment than what our outdoor labourers now wear in the rain.

So different are the circumstances of different civilised nations, the relations of classes and the position of Governments, that little can be said in general on the matter of dress and adornments, except that misdirected consumption has been time out of mind conspicuous in dress, and never more so than since the Industrial Revolution began, resulting in immense waste and frequent ruin. Also in many modern countries, by the disorganisation of family life, notably by the absence of the housewife from home and by the want of training in household work, the proper care or repair of clothes has been neglected (as well as of the house-linen and household utensils): such neglect being no trifle; for since clothing will last twice as long if properly mended and cared for, the neglect of such care will compel a man, if he is to be clad as well as before, to spend on clothing nearly twice as much.

Depraved consumption has often been checked by direct sumptuary laws forbidding extravagance. So the famous statute in 1361 under Edward III., which regulated the apparel of every class of the community, of knights with 400 marks, knights with 200 marks, gentlemen under the estate of knights, merchants, yeomen, handicraftsmen, ploughmen, servants, as well as of their wives, and children, and which also as Professor Cunningham points out (*Industry and Commerce*,

I. p. 286), bids the clothiers provide sufficient cloth at the various prices permitted to the different classes, so that there should be no excuse for infringing the law.

In our own time the same end is better reached by indirect means, as by strengthening family life and providing fit employment for women at home, since machinery has taken spinning out of their hands. But also in two ways we can directly attack the mischief: first, by sanitary police regulations against the sale of adulterated, unhealthy clothing or boots; secondly, by making the purchase-money for any article of unnecessary dress—all trinkets and ornaments—to be irrecoverable if not paid down at the time of purchase. Such a rule would close one of the most oft-trodden roads to ruin.

§ 12. **V. Furniture.**—Let us include all household utensils and bedding, and the expense of washing under this as the fifth head of consumption. The expenditure on this head, like that on fuel, is closely connected with dwellings; and the want among the poor of proper goods and chattels, and of the proper means of washing and drying their linen and their persons is one of the aspects of modern *Wohnungsnoth*. The establishment of baths and wash-houses in connection with every group of dwellings and every factory or large workshop, is to be held part of the duty of providing decent dwellings, and treated accordingly. The likelihood of misdirected consumption is present here also, and "cheap" furniture, really wasteful and bad, eliminates the good; while the sinister combination of carelessness, hard water, and chemicals in washing, can take from us all the advantage of cheap underclothing that we hoped to have got from technical progress.

Immense sums are spent on washing by the upper classes in England, partly because of the great and commendable

love of clean linen, partly because of the great use of the sort of clothing and bedding that require washing, partly because the air is charged with soot, partly because of the costliness of proper washing materials (unpolluted running water being scarce), partly because of the ill-organised and inefficient technical methods of washing, partly because of the faulty training and dispositions of the workpeople. In the middle of the century things were perhaps at their worst, and it was reckoned that a family of moderate means spent one-twelfth of its income on washing. Perhaps one-twentieth is now a more common figure.

§ 13. **VI. Medical Expenditure.**—This may be taken as a separate head of consumption, and to include the use of the services of doctors, surgeons, and nurses, and the use of medicines, disinfectants, surgical appliances, hospitals, and medical baths.

While the rich can be mainly left to take care of themselves, the fit medical service of the poor requires their protection against quack doctoring and bad nursing; and in certain circumstances where charity is dried up or cannot reach, the owners of property, the employers of workmen, or the local authorities may be called on to provide medical aid for those on their property or in their employment or jurisdiction.

§ 14. **VII. General Education.**—This head of consumption does not include special or technical education; for the cost of technical education, as already explained, is really a deduction to be made from gross income, not a mode of spending net income; and thus technical education is part of the process of production, whereas general education falls under consumption or enjoyment. The last kind of education therefore is the only one that concerns us here; but enough has already in the second chapter been said on it, and we need only here observe how greatly in many countries this head

of consumption is fostered by exemptions, bounties, payments out of taxes, or by making, as in China, all posts of authority and honour depend on passing a literary competitive examination.

§ 15. **VIII. Religious Expenditure.**—Under this head the principal items are religious worship, almsgiving, and burials; and history shows startling variations in the amount spent on each.

Compare the vast sums spent by the English people in the fifteenth century on public worship, the superb buildings, every wall and window brilliant with colour, the exquisite carved work in wood and stone, the embroidered vestments and jewelled altar plate, with the cheap ritual and white-washed interiors of the eighteenth century.

Almsgiving, using the word in the widest sense, may be an immense channel of expenditure where there is both the motive and opportunity for its exercise. Though existing in the rude and simple conditions of society, like the Homeric age, especially in the shape of hospitality to strangers, it is far more conspicuous in highly civilised societies, where distress is more widespread and chronic, and where the motives of religion and natural compassion are often, as in the early Roman Empire, supplemented by ostentation. At present, in our large towns among the very poor the percentage of their income spent in compassionate gifts is often much higher than that among the artisans, the middle class, and the rich.

Funeral expenses have often been a serious item; they reached a portentous height among the Egyptians under the Ptolemies, and at this day are a heavy burden on the English poor. Their excess has frequently been restrained by sumptuary laws such as those of Solon at Athens and of the XII. Tables of Rome; and in our own day, some restraint on the splendour of funeral monuments in China might be of great benefit. Such sumptuary laws are distinct from the possible duty of Governments to forbid certain modes of burial, for example, metal coffins and brick graves as injurious to health; or cremation as injurious to preserving judicial evidence. On the last point see an able article in the *Quarterly Review*, July, 1900.

§ 16. **IX. Justice.**—This head of consumption includes the enjoyment of peace and security, and

the means of the orderly settlement of all disputes by process of law.

Observe that this head of consumption is by no means equivalent to the actual expenses of Government, which cover only part of the same ground. Thus a portion of the rates and taxes which we pay in England to the central and local authorities, are not payments for the enjoyment of justice, but for educating and supporting other people, or for the use of roads, harbours, water-works, light, or drainage. On the other hand, many payments that are really for the sake of peace and justice do not take the form of payments to Government, for example, many legal expenses and all private precautions against violence and thefts: bolts and bars, revolvers and watch-dogs, watchmen and attendants. Hence it is often a very complicated matter to know on what we are really spending our money, or what is and what is not expenditure on justice, and what we ought and ought not to deduct from our gross income before we reckon up our net income. But to determine with sufficient accuracy for our purpose the functions and expense of a humane and rational Government is fortunately not a very complicated matter.

§ 17. **X. Recreation.**—This final head of consumption requires to be treated more in detail, because of its variety, its effects, and the many occasions it offers for legislation to foster or restrain it, and for taxation. In truth, although the amount and character of recreation is an indication and effect of the state of a nation, it is also in its turn a cause of that state; moreover, for nations as for individuals there can be too much or too little recreation, the too much or the too little varying indeed with circumstances; again, unless innocent recreations are provided for them, the great multitude of men will indulge in bad ones; and even where there is a choice of both, the principle of depraved consumption will too often come into

operation, and bad recreations will take the place of good. All this being so, a vast responsibility weighs on all those in any sort of authority to avert a calamitous deficiency of some kinds of recreation and a calamitous excess of others. And the Industrial Revolution has made this responsibility all the heavier, because the strained, continuous, noisy, hot, and dusty work of modern factories and workshops makes recreation more necessary than it was in the easy-going, slack, and quiet methods of the past, when work and play in many industries were not sharply separated as now: moreover, the vast growth of the towns has vastly increased the craving and the opportunity for evil recreations.

§ 18. **Rough classification of Recreations.** — They may perhaps be conveniently arranged under the following heads.

Games and sports of all kinds, excluding field sports, but including children's games and athletic sports. Of such recreations there is the greatest need, both physical and moral, the playground being little less important than the school. The happy prevalence of outdoor sports among the middle and upper classes in England contrasts with the miserable deficiency of such sports among the poor; for whom proper playgrounds are generally wanting, even in many country villages, and above all in the towns.

Field sports, that is, the pursuit of any kind of wild creature, from a village rat hunt to a royal shooting party. These sports have been disfigured by two main abuses: first, oppressive game laws punishing poaching offences quite in disproportion to their guilt and before courts not fairly constituted; secondly, injury to agriculture and no proper compensation to the sufferers. Sometimes even there may be artificial sterilisation of the land and depopulation of whole regions for the sake of game. But this is an exceptional abuse, a mere trifle compared with the other form of withholding resources to be described at the end of the tenth chapter, and can easily be checked; while those other two abuses are by no means a necessary accompaniment of field sports; which thus reformed are an admirable influence for good, withdrawing from the evil or unhealthy occupations of

the town, fostering residence in the country, and bringing together rich and poor by common occupation and common interests; while the need even in densely-populated countries of preserving abundance of woods and flowing waters, affords perpetual shelter for objects of the chase.

Excursions of all kinds, unless like riding, cycling, or yachting, they can be called athletic sports. Pleasure-trips by rail or steamer and taking drives, form the two principal kinds of recreation under this head, and the aggregate sum spent on them is very great. To be driven in a well-built carriage drawn by fine horses along a fashionable promenade, is one of the principal modes by which in all the great cities of Europe, and both Americas, rich people display their riches; not a worse method perhaps than that of other and ancient civilisations, but not a better. The recreation of travelling in its modern shape is new in its importance. It has become possible because of the revolution in the means of travelling; it has become a requirement because of the hurry of business, the concentration in towns and the lack of recreation-grounds; and is a necessity of our case. Only perhaps, it were well to alter our case and to lessen that necessity.

Artistic recreations, pleasure gardens, picture galleries, collections of statues: on which, like on other things, there can be excessive expenditure, but seldom national mischief; and even such extravagance as that seen in the building of Versailles, or of the three palaces of Louis II. of Bavaria, may be a permanent source of pleasure to many generations, and even a source of national wealth by attracting foreign visitors.

Literary recreations, from the ennobling study of the masterpieces of literature to the reading of a halfpenny newspaper. The invention, not of printing, but of machine-printing, combined with the improvements in transport, have allowed the taste for newspapers to be indulged almost *ad libitum;* and indeed our Government encourages the taste by a bounty on newspapers in the shape of a special low rate for their transmission through the post. Whether the recreation of reading even the innocent matter in newspapers is not rather to be kept within bounds by a restrictive sumptuary law than fostered by a bounty, is worth considering; but certainly the publication of all the details of murder, suicide, and adultery should be absolutely forbidden, and all obscene and blasphemous literature be suppressed with as much severity as the manners of the country will endure.

Festive meetings of all kinds, notably banquets and dances, of which the kinds are so many and so various that little can

be said in general on their expense or character. Thus, dancing varies from being an admirable and inexpensive recreation among many peasantries on both sides of the Atalntic, to being a source of extravagance and immorality in the north of England, and ten times worse in France. Banqueting and festivities have often been checked, both wisely and unwisely, by sumptuary laws, like that of Edward III. *de cibariis utendis* in 1336. A recent law, probably excellent, has limited the expenses of marriage festivities in parts of India. At home, the reasonable check put by law to the consumption of certain foods out of season might with advantage to national health and wealth be extended to some kinds of fish; and a heavy tax should be laid on the practice of killing calves under two or three months old.

Music, though capable of being abused, is less likely to be than most recreations; great results can be obtained by its means at little cost; the spread of good musical training and entertainments among the workpeople is one of the first among the minor methods of social reform; and the restoration of the gratuitous mediæval song-schools one of the ways of undoing the great spoliation of the poor under Henry VIII and Edward VI.

Shows and spectacles of all kinds, of which the most con spicuous have been the struggles of men and animals in the circus, and the drama in the theatre. The last may be said to be the characteristic recreation of man, the highest flights of his genius and the lowest depths of his degradation being recorded in the history of the theatre: alike the plays of Æschylus and the foul swamp of the later stage of Greece and Rome; alike the Christian dramas of Shakespeare and Calderon and the French plays of most of the nineteenth century. Observe how common among civilised rural populations has been the religious, mythological, or historical play. To this day, the farmers in China during the slack season of agriculture will charter a troupe of actors, and witness an heroic play in the village market-place.

Obviously any Government worthy of the name will check the exhibition of immorality, whether on the stage or elsewhere; and will remember that the principle of depraved consumption applies with great force to stage plays, and that the better sort, unless there is watchful vigilance by authorities, will likely enough be eliminated by the worse sort.

The use of *innocent narcotics* forms another head in the catalogue of recreations. Such is the use of betel-nut among Burmese and Malays, of coca in parts of South America, and above all of tobacco, which has spread over the civilised world

during the last 300 years, forms one of the chief sources of public revenue in many states, and of which the annual consumption a head in the chief countries of Europe and America ranges from over one to over four pounds' weight.

Putting aside the preventible abuse of smoking by young lads, especially in America, we may welcome tobacco as a true friend to the poorer classes, a solace amid their hardships, and a bond of union by no means to be despised between them and the richer classes. How far the heavy taxation on the poor man's pipe in so many countries is to be justified, we must wait till the Fourth Book to inquire.

§ 19. **Vicious Recreations.**—Last, but unhappily not least in importance, comes recreation that is wholly vicious: licentiousness, gambling, and intoxication. Regarding the first, although a Christian Government has several direct means of action, notably the repression of foul literature and plays, its main function is indirect, by fostering Christian family life and the influence of religion. *Gambling*, when a widespread vice, is more easily to be checked by police regulations, since it is very dependent on the easiness of the opportunity for it; and thus assuming reasonable laws on property, and the refusal of all courts to enforce gambling debts, the authorities can repress, not indeed the recreations which are abused for gambling, but the pernicious profits of the promoters of gambling.

The difficulty is that, using the word strictly in a bad sense, gambling is merely the excess of a perfectly lawful practice. To stake property on an uncertain event may be an admirable restorative excitement after the cares and labours of the day. But if so much is staked that a man's creditors or family would feel the loss of it, or if he or others are drawn by moderate stakes into the temptation of excessive stakes, then this is gambling. But obviously this is a matter for private consciences, not for the public constable. It is otherwise indeed where excess is so widespread and

habitual that there can be a reasonable legal presumption of its presence. So notably in two cases in England, stock-exchange speculations (which we shall examine in the next Book) and betting on horse races. The crowd of dishonest and violent men who swarm on every racecourse, the countless betting agencies throughout the land, the many newspapers openly devoted to the promotion of gambling, the enticing and entrapping of innumerable victims, notably of so many lads among the working classes, all this partly in defiance, partly under the shelter of the law, is a crying evil and much of recent growth. (Rev. A. T. Barrett, in *Economic Review*, April, 1897.) The Act of 1892, forbidding the solicitation of minors by circulars or otherwise to bet, might be extended to non-minors; and the publication of "betting odds" in a newspaper might be made a misdemeanour.

§ 20. **The Drink Traffic Problem.**—Intoxication by the abuse of strong drinks, or of narcotics like bang and opium, has been recorded among men from the most ancient times, and among societies the most different in their surroundings and degree of civilisation. Some nations at certain times have been almost free from this evil, like Italy in the eighteenth century. Oftener it has been one of the minor evils of society that call for little, if any, interposition of Government. Sometimes it has become a crying evil and an abundant source of misery and crime, as in many countries of our own time, our own country among them.

In the middle ages in England, the great effort of the Government was to secure a supply of well-made, unadulterated liquor in honest measures at moderate price. The abuse of the liquor was left to be kept in check by the ecclesiastical authorities. On their overthrow began the new principle of punishing drunkards and granting licences for the sale of intoxicating drinks. In the seventeenth century arose the perverted view, which lasted till the nineteenth century, that for the richer classes at least, drunkenness was no frailty, but rather a virtue. But a worse evil arose by the spread among the poorer classes of a new intoxicant, not the

ancient ale or mead or cider or wine, but spirits. The new Government of 1688, favouring the distillers, allowed the depraved taste to spread, and gin-drinking became so terrible an evil that immense efforts were made by the Government of George II., at last with much success, to check it. In the nineteenth century, the amount of drunkenness in the United Kingdom has varied, but never, I think, sunk below the level of being a national evil of the first magnitude; the happy reform among the richer classes has been balanced by the immense spread of the adulteration of drink; and greater sobriety of some bodies of men, like the sailors, soldiers, and perhaps commercial travellers, has been balanced by the growth of drunkenness among women. The amount of beer and spirits, respectively thirty-two gallons and 1·05 gallons a head, consumed during 1898 in the United Kingdom, was at least double what it ought to have been. And the scandal continues from one decade to another, that while the victims of drunkenness and their families are punished, often with the sharpest sufferings, those who excite their morbid craving and make profit by it, live in honour and prosperity. Indeed, the liquor trade of the United Kingdom, with some £230,000,000 invested, with some 126,000 drinking-places, with an organisation and journals of its own, forms an *imperium in imperio*, which has hitherto been able to hinder any effective reform.

§ 21. **The Solution.**—The following recommendations seem appropriate under the present circumstances of the United Kingdom, and to be confirmed by a study of the two rival Reports issued at the close of 1899 by the Royal Commission on the Liquor Licensing Laws:

(*a*) To convert the public-houses into decent places of public refreshment, with no drinking bars, no hidden places for drinking, no private entrances, but fitted with seats and tables, where eatables and non-intoxicating drinks would be served as readily as alcoholic drinks. (*b*) Order and decency to be preserved in these public-houses, no intoxicating drink to be served to any notified drunkard, and the publican to be punishable for any person leaving his premises drunk, unless genuine ignorance can be proved. (*c*) Lest the above regulations be waste paper, the publican to be a man of good character and of substance, wholly independent of any

brewer or distiller, and having paid a large sum for his monopoly, careful not to forfeit it by misconduct, or to suffer it to be infringed by illicit drink-shops or bogus clubs. (*d*) But to make the monopoly thus highly valuable, and to make police supervision effective, the number of licensed houses must be reduced to perhaps one-fourth of their present number, or even less. (*e*) The consequent closing of so many existing public-houses raises the disputed question of compensation, and though by strict law none is due, and the indignant argument is heard that there must be no paying the liquor trade to leave off their work of demoralisation and death: sober reasoning answers that the case is not like that of punishing usurers and cheats; that part of the liquor trade is the honest supply of a legitimate demand; that for the guilt and mischief of the other part, not merely the present liquor traders, but those retired, or their heirs, and many others in our community are responsible; that a moderate compensation to the present owners for the closed public-houses is therefore equitable, and easy to pay, as the sum could be advanced by the Government and gradually defrayed by the remaining publicans in the shape of the large payments they would make for their valuable licences. (*f*) Obviously, a reform would be required in the present licencing authorities, and as far as possible those should be excluded who are interested in the liquor traffic. The foregoing reforms would also make it easy (*g*) to put an end to the adulteration of beer and spirits, the "filthy maddening stuff," in the words of an experienced police magistrate, sold to the poorer classes, and the sale of immature spirits; (*h*) to favour by differential taxation the consumption of mild ale, cider, and light wines at the expense of stronger drinks, besides exempting from taxation home brewing for home consumption.

These recommendations are in part the application to the United Kingdom of the *high licence system*, which has had considerable success in several States of North America and Canada, and seem more adapted to our circumstances than certain other successful solutions of the drink problem, such as the *Gothenburg system* (or conducting the retail traffic in distilled spirits without private profits), which has spread over Sweden and Norway (see some

details in the *Economic Journal*, June, 1899); or again the Alcohol Monopoly prevailing in Switzerland since 1887 (fully described in the *Economic Review*, April, 1893); or finally the Government monopoly of spirits in Russia, begun experimentally in 1895 and now extended to more than half the inhabitants of that empire.

On the other hand, the solution by *prohibition* has failed. This is the total prohibition throughout a large region of the sale of all the more intoxicating drinks, and has been in force in several American States—in Maine since 1851. But of seventeen States that have adopted it, ten have abandoned it, and there seems good evidence that it leads to illicit trade, police corruption, bribery, and perjury as habitual, not occasional evils.

Where indeed the total prohibition is confined to a small area and results from the popular vote of the inhabitants, it is known as *local option* or *local veto*, and in America has worked well in some rural districts and some small towns. But, apart from other objections, there is grave inconvenience, where inter-communication and travel are prevalent, for the liquor laws of one village to be different from those of the next.

§ 22. **Mistakes on the Drink Question and on Sumptuary Laws.**—(1) To reckon the national drink bill of the United Kingdom at some 150 million pounds sterling, without explaining that of this sum about a quarter is in the shape of a tax to Government on the liquor or its sale, and thus is payment, not for drink, but for law and order.

(2) To attribute to drink the greater part of penury, immorality and crime, and in consequence to think "temperance," or "total abstinence," the one thing needful for social reform. In reality those evils can coexist with almost universal sobriety, for example, among the Mahometans of Northern Africa and the Turkish Empire with their great sobriety and abominable immorality. Again, those evils may be as much the causes as the effects of drunkenness; for pinching hunger, or reckless overcrowding, or deeds of shame, may not follow the gin bottle, but be followed by it as a solace.

(3) To say that men cannot be made sober by Act of Parliament, and that the sale of drink should not be restrained. But then also neither can they be made moral or honest; and so let the law leave absolute freedom to every indecent exhibition or publication, permit every fraud and enforce no contract. There is indeed a ground for this mistake in the frequent failure of ill-judged temperance legislation. But the moral of failures is to do better, not to do nothing.

(4) To say with Adam Smith that it is the highest impertinence and presumption in kings and ministers to pretend to watch over the economy of private people and to restrain their expense either by sumptuary laws or by prohibiting the importation of foreign luxuries. For this argument assumes a general wisdom and frugality that is imaginary, and ignores the real fact of depraved and misdirected consumption.

(5) To run to the other extreme and look on the police regulations of a German bureaucracy, or the results of an American popular vote, or the restraints imposed by sixteenth century Puritans, as the expression of organised reason; thus failing to give us any criterion of the limits of interposition, to hand over the details of private life to be ordered according to the good pleasure of Government; whereas sumptuary laws can only be justified when rights are violated (as by solicitations to drunkenness, gambling, or licentiousness), or when they can be made to promote some great and obvious public good, or abate some great and obvious public evil.

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The foregoing sections on the Drink Traffic Problem have been left unaltered, as the Licencing Act of 1904 has been itself no solution and seems likely soon to be replaced by much more vigorous legislation. The recommendation in the text of the high licence system has received substantial support from the new book on *The Taxation of the Liquor Trade*, by Joseph Rowntree and Arthur Sherwell. (Macmillan, 1906.)

CHAPTER VIII.

FAMILY LIFE AND LAW.

§ 1. **Fundamental Importance of the Family.**—The family is the prerequisite of production, the ordinary unit of enjoyment, the foundation of national welfare and greatness, the principal source in the natural order both of virtues and happiness. On the efficiency therefore of the family depends the principal part of social welfare; and we must not in defiance of history ignore its importance or assume family life to be everywhere the same, and a constant force in economics; when in reality the variations in the efficiency of the family have been very great both in past times and in present, and the consequences all-important.

The limits of this Manual confine our attention to the conditions of family life in Christian countries. Many further details, as well as an account of some other forms of family life, such as that of the Greeks and Romans, Hindus and Chinese, Mongols and Mohammedans, can be found in a previous work of the author, namely, *Studies of Family Life.*

§ 2. **Christian Family Life.**—The Christian doctrine on the supernatural, exclusive, and perpetual character of marriage, on the grave responsibility of parents for children, and on the grave duties of children to parents, being familiar

or ascertainable, can be taken as understood. And wherever Christianity has prevailed this teaching on family life has borne a more or less corresponding fruit in practice.

Let there indeed be no mistake about the meaning of the prevalence of Christianity and the practice of her doctrines. The same authority that teaches the doctrine of family life already set forth, teaches also that human nature has been corrupted and that disobedience is to be expected. Hence in any Christian nation even under very favourable circumstances we may expect a certain number of unfaithful spouses, neglectful parents, undutiful children; and among the rich and powerful classes many lapses of the young into vice. Still more is this to be expected when, as often, the laws and customs of a country have been only half-transmuted by Christianity, when alien and hostile influences are prevalent, or when the people, though retaining the main teachings of the Christian faith on family life, is yet separated from the unity of the Christian Church and deprived of many means of observing her precepts.

The real point, however, is not that evil will be absent, but that good will be present, and that in multitudes of homes, conspicuously among the poorer classes, the beautiful life of Christian virtue is being led, and a modest, obedient, and affectionate youth is being reared, a reserve of vigour and morality. Such, for example, with the significant exceptions of great parts of England and France, was the state of the rural classes in most of Europe in the middle of the nineteenth century, revealed in the marvellous monographs of Le Play, and was quite irrespective of country, tongue, or race: Irish and Rhinelanders, Basques and Flemings, Spaniards and Hungarians, Italians and Poles, and in great measure also Dutch, Saxons, Swedes, Russians, Bulgarians: not to speak of many in parts of England and France, or to cross the Atlantic to the New World, or to go back to previous centuries, or to give illustrations from the dwellers in towns or from the richer classes of Christian nations. Hence it is quite an unfounded objection to say that the strict fulfilment of the Christian precepts on the family is an impossible ideal; though indeed it is impossible for the vast multitude of men if the doctrine on which it rests is cast aside. Moreover, this admirable family life among the poor is not bought at the price of their wits, but is highly favourable (as already noticed *supra*, pp. 46, 138) to their true intellectual culture. Just for

example, compare the mental and æsthetic conditions indicated by Mr. G. W. White's *Songs of the Spanish Sierras*, 1894, or by Mr. Douglas Hyde's *Love Songs of Connaught*, or by Ruskin's *Road-Side Songs of Tuscany*, or by the Breton Mystery Plays described in the *Times*, 20th October, 1898, with the nightly dramatic and musical performances attended by the poorer inhabitants of London, Paris, and New York.

§ 3. **Family Law in General.**—On the family law corresponding to the Christian view of the family two points require particular notice. *First*, that many varieties of the law touching for example the effects of marriage or property, the extent of paternal power, the right of testation, the rules of succession, the mutual responsibility of the members of the family, can be all equally in harmony with Christian family life, which being for all countries and all circumstances is very flexible in its requirements. *Secondly*, that many laws and customs more or less out of harmony with the Christian family, yet not incompatible with it, are tolerated, and may even be approved *per accidens* as the best under the circumstances; and thus are quite distinct from legislation which is in direct conflict with the Christian family, like the divorce laws of the United States, of England and of France, or the prohibition of marriage between negroes and whites.

§ 4. **Law on Married Women's Property.**—The Christian ideal would require all goods to be held in common, the husband to have the administration and control, but not the absolute control, the wife to be secure not merely of proper aliments while a wife, but of proper support when a widow; "proper" implying a reasonable correspondence with the rank and property of her husband.

In England this security for the wife has been reached in two ways. In the middle ages the widow had under the title of *dower* a right to a third of the lands and tenements held by her husband at the time of marriage, and one-third of all other property. In modern times, with the absolute freedom of testation and disposition of property, the wife and widow have been equally protected by the almost universal practice of *marriage settlements*. In America many States have adopted *Homestead Exemption Laws* by which a definite unit of property like the homestead and the means of cultivating it, or a definite sum of money, is made a secure refuge of the family, which the husband cannot alienate without the wife's consent, and which after his death remains in her possession for life. Also a man's widow and children in some of the States receive a year's support or allowance, giving them an ample breathing-time till the Court of Probate has distributed the property; and in some the mediæval dower still survives. In the German Empire the Civil Code of 1899 provides a widow's dower in the shape of a claim, which no will can bar, to an eighth of her husband's property if there are surviving descendants, and to a fourth if there are no descendants.

Naturally no such provision for the wife or widow is needed in countries where law and practice combine to place much property in the hands of married women, property which they can manage and dispose of quite independently of the husband. This ill accords with the order and unity of Christian family life; but is perhaps the best arrangement under the unhappy circumstances of those countries, like the Roman Empire under the Cæsars and the present Mahometan countries, where divorce is so common as to be an ordinary contingency for which the law should make provision.

In both the Roman and Mahometan system of family law we see married women's separate property recognised and usual. Many people in England applauded the Married Women's Property Act of 1882 without at all understanding the sinister connection between it and the law of 1857 that established a divorce court.

§ 5. **Married Women in Factories.**—From the Christian point of view, just as among the richer classes it is unsuitable for the wife to be separately established: so too among the poorer classes it is unsuitable for the wife in ordinary circumstances to get her living separate from her husband, instead of being normally engaged in keeping the home in order and in taking care of her young children. This matter has become of grave practical moment in the nineteenth century, because married women so often quit the management of the home and work in factories or shops, with incredible injury to health, happiness, and morality: a remedy for which evil is one of the urgent problems of our time.

A factory worker can hardly act as the skilled housewife, who with ten shillings a week to spend on food will often do more for the health and strength of her family than an unskilled one with twenty. The loss to children from the lack of mother's training, the loss to all the family from the lack of a well-ordered house, the loss to the wife and mother from being removed from her proper surroundings, the loss to the husband because his duty of being the main support of the household is obscured, and he is tempted to think that woman's function is to work and man's to be idle and drink: such evils are beyond the measurements that figures can express, and the seeming extra earnings of the family afford but a sorry and delusive compensation.

Where indeed the hours of women's factory work are short, the evil is not so great; and where proper homes are wanting, all objects of consumption bought and none made at home, no brewing or baking done at home, and a minimum of cooking, washing, and mending, no garden, poultry, pigs, or goats for the housewife to attend to, the mutual responsibility of the members of a family little thought of: there factory work may be a beneficial occupation for married women, while the old people and the sickly may be usefully employed in attending to the children during their mother's absence. This at least is better than where the old and sickly are in the workhouse, and the mothers in the gin palace. But this justification of

the work of married women away from their families in factories or shops is only a justification *per accidens;* and if Christianity got the upper hand, the grounds of such justification would be removed, and in all ordinary cases such work would be prohibited or only allowed where the mother and her children could be at work together in one room, or the entire working of a particular machine, as is sometimes possible, could be given over to a particular family. And the mother being restored to her home, the poor substitutes for the mother's care and for the family meal, such as the *crêches* for poor children, and public kitchens or cheap dining-houses for the workpeople, would cease to be a dismal requirement of our time.

§ 6. **Laws on Wills and Intestacy.**—The proper relations of parents and children, especially of father and sons, require that the parent should have over the children full powers of control and correction up to a certain age, full freedom in the choice of their education, certain powers of disposition of family property during life and also by will; that between parents and children mutual claims of support should be recognised, and that the laws of intestate succession should give the property to the children unimpaired except by the life-estate of the widow.

In regard to the richer classes and peasant owners, the chief points of discussion are the laws on wills and intestacy. In England, Ireland, much of North America, including some Mexican and Central American States, a father can by his will transfer all his goods to strangers and leave his children penniless; and the letter of the law seems to invite abuse. But the working of laws, not the letter, is what matters: and the force of public opinion as well as the frequency of marriage settle-

ments are sufficient checks, at any rate in England, to this arbitrary power; where also by no arrangement either *inter vivos* or *post mortem* can a man tie up property indefinitely or settle it for a longer period than the life of a living person and twenty-one years beyond.

The French civil code, the fruit of the Revolution, and avowedly directed against parental power, forbids the parent to give away during life or by will more than half his property if he has one child, more than a third if he has two children, or more than a fourth if he has more than two. In other countries *legitims* (*i.e.*, the portion of parental property of which the children cannot be deprived), once exaggerated in imitation of the French revolutionary code, have generally been reduced to more moderate limits. Thus in Italy, Austria, and Germany children, however many, cannot claim more than half the property; and in Spain, although two-thirds of the property must go to the children, only half of the legitim (one-third of the whole property) is divided equally among them, while the other half can be given entirely to one child if the father so determine, or distributed in any way among them that he pleases. In many parts of Germany and Austria, the property of the peasantry and yeomanry (*Bauern*=small and intermediate farming-owners) has been put in a separate legal category, and the father can bequeath it entire to any one of his children, who is called the heir (*Anerbe*), and who then within a certain number of years pays off to his or to her brothers and sisters a very moderate legitim.

In default of a testament the law must in some way indicate the devolution of property. This is intestate succession: of which the reasonable principles can perhaps best be remembered by looking at the extreme of unreason in the revolutionary French law as it stood for the greater part of the nineteenth century.

First, all property is treated by that law alike, and divided equally among all the children; whereas a wise law will treat rural properties apart, especially

those below a certain size, and will endeavour to preserve small farms intact in the hands of a single heir. The modern development of life insurance has rendered this easier, being a way to escape the dilemma of either partitioning the farm, or burdening it with debt to pay off brothers and sisters. For these can be much easier paid off if there is ready money at hand in the shape of the insurance payable at the father's death.

In England, when the land was overspread with small farms, and for many centuries previously to the sixteenth, the farms passed from the father to the eldest son (primogeniture), or to the youngest son (borough-English), according to the custom of the manor. In later times primogeniture was rather a means of preserving large than small properties, and like the rest of our law of intestate succession has been of little importance, because of the prevalence of wills and settlements. In Germany and Austria by the special laws already named, if there is no will, one child succeeds as the heir to the whole peasant farm and pays off to the rest their claims by degrees. This child, in Germany, is the eldest son; but the Austrian law of 1889 leaves the matter to be settled by local legislation. On these and other laws much information can be gained from Mr. Evelyn Cecil's *Primogeniture*, 1895; and an immense literature is to be found compressed into two admirable articles by Dr. Angelo Mauri in the Roman *Rivista Internazionale* for October and November, 1896.

Secondly, the French law gives daughters exactly the same amount as sons; whereas the true honour and dignity of women is best consulted by leaving the ownership and management of property mostly in the hands of men.

Thirdly, the French law is not satisfied with each coheir having equality in value, but each lot or portion must be made up alike, each child able to claim a portion of the farm, or of the business, or of the house property, with disastrous effect on

the continuity of business firms as well as of farms: whereas a wise law should seek to prevent any break in industry by death.

By the foregoing provisions and by others making all family arrangements before or even after the death of the parents difficult and uncertain, the greatest obstacles have been put in the way of a family of brothers and sisters, or remoter relatives dwelling together, the greatest possible incentive given to disputes, the greatest possible field for the intervention of public functionaries, and the absorption of a great portion of the inheritance—if it is small, of the greater portion—by the various harpies of the law. In fact, law-suits regarding successions used to form in France a great part, sometimes nearly a half, of all lawsuits; and small inheritances were sometimes reduced by legal expenses to almost nothing. A happy change has been introduced by laws of 1894 and 1898, applying to all dwellings under a certain value (different according to locality), and preserving the home intact for the widow and orphans during the five years after the father's death, and till the eldest son is twenty-six, sometimes even till the youngest son has reached majority.

§ 7. **English Law of Intestacy and its Reform.**—The English law of intestacy which gives real property absolutely to the eldest son without any obligation to provide for brothers and sisters, and then makes no distinction at all of age or sex in distributing personal property (as though one excess could be balanced by another), would not be tolerable if it were not for the prevalence of wills and settlements. But for the owners of small properties we cannot assume the prevalence of wills, while settlements are too cumbrous and expensive. Indeed, the less the poorer folk are brought into contact with lawyers the better. Thus with the much desired increase of small owners and holders of realty and personalty a corresponding change in our law of intestacy will be needed —perhaps on the following lines:

(*a*) The present mitigations of the death duties for small properties (under the Finance Act of 1894) to be so extended as completely to exempt all small properties from any fiscal charge at the owner's or holder's death; and a public officer to distribute the estate at a small charge, the total legal expenses chargeable to the estate not to exceed five per cent. of its value (any further necessary expenses being defrayed out of the public purse). (*b*) A Homestead Exemption Law, securing *ipso facto* the farm or house of the small holder from being seized by creditors or alienated without the wife's

consent; and on the father's death remaining a secure home for the family and intangible till the death of the widow and majority of the youngest son. (*c*) Even then by a combination of the American Homestead Exemption laws with the German *Anerbenrecht*, to keep the small holding intact, giving the ownership to the eldest son, with certain obligations to his brothers and sisters. As already mentioned, this can be facilitated by life insurance; and a great opportunity is now open to the English legal profession to select what is best in the laws of America, Germany, and France, and to provide for the United Kingdom a truly reasonable and humane law of intestacy for small properties.

§ 8. **Parental Control over Children and their Earnings.**—Among the class far too numerous in America and Western Europe with scarce any property, and living wholly from wages, the laws of wills and inheritance are of less weight in affecting the relations of parents and children; and the point of importance for them is the parental control over the general and technical education, and over the earnings of the children. As already explained, the Industrial Revolution has been injurious to the older workers, because the stress and strain of production with machinery make those in later life less efficient than they used to be, long experience and slow but careful work being now of less value, the quickness of youth of more account; and thus the earnings of the boys and girls are relatively of greater importance in the family budget. This being so, there was need of increased care, that in the primary schools the primary thought should have been the teaching of religion, of reverence, and of obedience; that the care of providing for aged or incapacitated parents should have been stringently enforced, that the

earnings of boys and girls should never in ordinary circumstances have been put into their hands, a direct encouragement to insubordination or deceit, but have been paid to their father or mother. Whereas just the reverse has been done in much of Europe and America: the parents virtually compelled to send their children to irreligious schools; mere boys and girls, as Professor Marshall laments (p. 772), enabled to set their parents at defiance and start in life on their own account; and old age exposed to solitude, neglect, and poverty. Hence to both young and old an incalculable loss of economic goods, and the first principles of the Christian family trampled under foot.

In England we see an extraordinary contrast between the richer and the poorer classes. For the law gives to the one what it denies to the other, freedom in directing the education of their children, control of them till they are of age, influence over them afterwards; and thus if a boy, while yet a boy, is insolent or irreligious, in nine cases out of ten it is the fault of the parents: but among the poor in nine cases out of ten it is not their fault, but their misfortune. Moreover, it is only among the poorer classes that the Industrial Revolution has lessened the relative superiority of old age; business management still requires the prudence and experience of years; and the earnings of non-industrial labour, of literary and scholastic, of medical and legal, of civil and even military employment, are generally at the highest twenty years or more after a man has passed his physical prime.

It may be objected that to give to poor parents an authority over their children equivalent to that held by the rich, is to enable brutal parents, besides ill-using their children, to live idle and drunken on their earnings. But we must not in our fear of occasional abuse of parental power by degraded parents suffer that power to be destroyed, and thus perpetuate the disorganisation of the family, and perpetuate in consequence one of the chief causes of that degradation. For undutiful or immoral sons or daughters become bad fathers and mothers. Moreover, such abuses

can be gradually reduced to a minimum by the spread of religion and by other social reforms; and could be lessened immediately by a little common sense in legislation. For if, following the excellent German Factory Law of June, 1891, it be made illegal to employ, or to continue to employ any lad or girl under age without the consent of the father or guardian, and illegal to pay them their wages, or any portion of them without the written consent of such father or guardian, and compulsory to keep an accurate and visible account of all earnings of such lad or girl: the law, while rightly making employers support in this fashion parental power, may prevent abuse of it by, for example, allowing the employer, on the known misconduct of the father, to pay the young people's wages to the mother, or to lodge them in a savings bank. At present the English law is obscure: some part of the services or earnings of a "child" under twenty-one is due to the father if the child lives with and is maintained by him. The remainder depends on agreement expressed or implied. Also sons and daughters, if able, may be compelled under the Poor Law to maintain their parents in old age or sickness.

§ 9. **Joint Families and their Importance.**— The economic importance and efficiency of the family greatly depends on its size, and thus it is important whether brothers and sisters or even more distant relatives continue through life to dwell together in one household. The term joint family can be applied where more than one married couple live together in one household. The simpler form is when one married son or married daughter lives at home with the parents; and this is the normal and suitable course where rural property, especially that of yeomen and peasants, continues undivided in the same family. A peasant household of this kind (to which Le Play has given the title of *famille souche* or *stem family*) will comprise on an average some fifteen or sixteen persons and generally three, often four generations.

For example, if the father is about fifty years old we may reckon the mother, the eldest son and his wife, seven younger sons or daughters, a grandparent, two unmarried relatives, and an apprentice or servant. Here are fifteen persons, nine or ten of whom are able to do work, and three generations. In a few years there will be the addition of the young children of the married son and perhaps fresh unmarried relatives—a sailor or a childless widow come back to join the home. On the other hand, there will have been a diminution by the death of the old grandparent and the departure of some of the younger sons or daughters.

The advantages of such households are very great in three ways: *first*, in the joyful society they give, the mixture of young and old, the abundant opportunity of recreation and instruction; *secondly*, in the process of production, many of the advantages of concerted labour are secured as is obvious, and secured without the drawbacks of carelessness, dishonesty, and misdirected production or consumption, on which enough has already been said; *thirdly*, in the process of consumption there is a remarkable saving: for if that family of fifteen were broken up into three separate households, the aggregate expense of housing, lighting, heating, cooking, cleaning, washing, and much else of domestic work would be at least double, for the simple reason that the materials and implements of consumption, the roofs and walls, the furniture and adornments, the gardens and play-rooms, the fuel and stores, the kitchen pots and pans, the stews and broths and brews, that are sufficient for five people, will in some cases be sufficient for fifteen, very often sufficient for ten, very rarely insufficient for more than five: not to speak of the greater variety of food and of other objects of enjoyment which is possible in a large household, a variety equivalent, as we saw in ch. vi., to a great increase in quantity.

Such stem families are also in complete harmony with the Christian view of the reverence due to parents, the reverence due to age, the mutual care of brothers and sisters for one another; and hence, where adverse laws and circumstances have not put a hindrance, they have been common in Christian countries. But though congruous, they are not essential to the Christian family. And in certain cases, notably among the rich and cultivated classes where there is no hereditary business to be handed down, and in rapidly changing society where the education and manners of one generation differ much from another, and amid those who habitually dwell in towns, the advantages of joint families are less, the difficulties, especially the want of community of

views, are greater; and in such cases the duties of the Christian family may be accomplished even better when each household is separate.

§ 10. **The Complex Joint Family.**—The more complex form of the joint family is where several married brothers live together with children perhaps also married, and numbering 25, 40, even 100 persons, all holding and using the bulk of the property in common, and all under the control of a head either elected (and then sometimes a female head) or according to some rule of succession like the eldest male of the eldest line. The term *patriarchal family* is sometimes given to such unions, though the term *complex joint family* seems better. They have been frequent in many and in different nations and times: they were presupposed by the early law both of the Romans and the Greeks, probably were frequent at one time among the Jews, as to this day among the Chinese, Bulgarians, and Servians, and during the first half of the nineteenth century among Russians, Croatians, and Hindus.

From the point of view of the production and consumption of wealth the complex joint family has the advantages of the simple joint family in a higher degree, and acts still more forcibly as a mutual insurance society against individual misfortunes and as a means of protecting the weak and controlling the worthless. The other extreme is what has been called the *instable family* and is common in Western Europe and America. In this form of domestic life there are no family traditions, no paternal hearth, parental authority is transient, the children soon work and live apart from their parents, and the sense of mutual responsibility is small. Compared with this instability the solid complex joint family of the East appears to great advantage. But the Christian ideal of the intimate union of husband and wife, of parents and children, is more attainable in the simpler form of the joint

family, in the stem family rather than in the patriarchal, which is perhaps more suitable to rude and semi-civilised than to highly-civilised times.

Great alikeness of culture, tastes, habits, views, politics, literature, as well as habits of great subordination and reverence, are needful for the complex joint family. Hence this institution when once dissolved in any country can scarcely again be restored there; whereas the simple joint family is likely enough to spring up again wherever Christianity gains the predominance.

Among both the Chinese and the Hindus the prevalence of joint families has been fostered by habits and sentiments unlike those of Christian nations. For much as the Chinese and Hindus differ in their religious, domestic, and industrial life, they agree in the vigour of their ancestor worship. Hence all descendants of a common ancestor, especially of a common parent or grandparent, are bound together by common worship of the dead and reverence towards the living, and this union of mind and worship is favourable to living in a community. Even where they live apart, the duty of helping poor relations is recognised to a degree that astonishes English observers, and in China at least, is a hindrance to great fortunes, since the richer a man grows, the greater the claims of his collateral relatives. Moreover, as a consequence of their religious views, marriage is practically obligatory, universal, very early, and arranged by the parents, not by the parties, who being mere boys and girls are unable, even if custom allowed it, to set up house for themselves.

CHAPTER IX.

GROWTH AND DECAY OF NATIONS.

§ 1. **Excess of Births over Deaths.**—The family is the foundation of the State: the multiplication of families is the origin of nations, and wherever family life is sound, and exceptional calamities like war and pestilence are absent, every civilised country will show every year a considerable excess of births over deaths. This excess indeed will vary much according to circumstances, but we shall not be far wrong in laying down that it must not in all ordinary years be less than one per cent. of the total population, or, to use the better standard of reckoning for vital statistics, ten in the thousand. If it is much below this, something is wrong, like the decayed family life which results in the low birth-rate of France and New England, or the unhealthy surroundings which result in the high death-rate of Spain and of parts of British India. But putting aside such cases of defective natality or excessive mortality, a vigorous nation will add from ten to twenty in the thousand every year to its population by the mere excess of births over deaths, and will double its numbers in less than half a century,

unless great emigration or some great catastrophe intervene.

As a fact the European nations have rapidly increased in the past eighty years in which there has been a comparative absence among them of war, pestilence, and famine; and increased in spite of the emigration of many millions to the New World. In parts of America, all favourable circumstances combining, there has been an increase, if not so great absolutely, at least relatively greater than in Europe. Thus the United States in the nineteenth century grew from about five millions to about seventy-six, Brazil from about one million to about seventeen. On the other hand, Spanish America for some half-century previous to 1870 was depopulated by civil wars, and only since then began rapidly to increase in numbers. In Europe, the annual excess of births from about 1890 to 1900 averaged for Russia 14·1; for Norway, 14; for England and Wales, 13·2; for Scotland, 13; for Holland, 13; for the German Empire, 12·5; for Sweden, 11·1; for Hungary, 10·2; for Italy, 9·4; for Belgium, 9; for Austria, 8·8; for Spain and Ireland, only 5, and for France only 2. But mark well that these three last cases of deficiency are each due to totally different causes. In Spain the figures are dubious: if true, the cause lies in the unsanitary conditions and the consequent high death-rate. In France and Ireland the figures are correct, the death-rate low, the deficiency the simple consequence of the low birth-rate. But then in the case of France this low birth-rate is due to sterility of marriage, a matter to be referred to presently, whereas in Ireland that dreadful moral disease is absent, and the low birth-rate is simply the result of the fewness of married persons (some 8·5 per mille, as compared for example with 14·5 per mille in France and England, and 15·5 in Germany), because so vast a proportion of the young people of marriageable age have left or been made to leave their unfortunate country.

Beware, then, of drawing rash conclusions from vital statistics when the same effect may be due to the most unlike causes, and require totally different treatment. Immigration or emigration may entirely alter the significance of vital statistics. Ireland is one example; another is in the very low death-rate of Australasia, which in 1889 was only 14·02 per mille; for this is only in part due to the healthy conditions of life, the other part arising from a cause that cannot continue, namely, the great proportion in the total population of immigrants in the prime of life.

Another point to remember is that mortality is greatest amongst very young children. Hence when we see in France in recent years a death-rate of about 20 per mille and about 21 per mille in Holland, we must not hastily conclude that the sanitary conditions of France are rather better than those of Holland. For Holland with its high birth-rate has many more fragile infant lives than France with its low birth-rate, and corrected calculations would show Holland to be the healthier country of the two.

§ 2. **Difficulty from the Prospect of Overpopulation.**—But if vigorous nations are thus in a perpetual state of growth, we seem to be met by a difficulty. For, although increase of numbers in any country may at first, and for a long while, enable increasing returns to be got for the same amount of labour, this process cannot go on *ad infinitum*, and in time the principle of diminishing returns will come into play, and increased labour on a given area yield in proportion a smaller return. The skill and intelligence of man can indeed by one improvement in production after another neutralise the action of the law of diminishing returns, but not indefinitely; and indeed, even among growing nations, considerable improvements are not always to be seen or to be expected. Hence, if such nations were confined to narrow geographical limits, they would be exposed in no very long time to the evil of *overpopulation* in the strict and proper sense of the word, in which sense alone it should be used in economics. A country, namely, or a district is overpopulated, when, because of the great number of the inhabitants, production has to be pushed to that degree of intensity which gives but a scanty return, and when in consequence many of the inhabitants are over-

worked or ill-fed. Such conditions are well expressed by the phrase that *population presses on the soil;* and assuming no improvement in the arts of production, the only possible remedy is a diminution of the number of inhabitants. Otherwise the evil will advance to the point where the multitude of deaths from starvation or semi-starvation, will raise the death-rate to the level of the birth-rate and secure a melancholy equilibrium.

§ 3. **Colonisation and its Importance.**—But as already said there is a remedy, and this is to be found in *colonisation*, which is essential to a vigorous nation, and which has two principal forms. One is the actual emigration of great numbers and the peopling of (comparatively) unoccupied regions, notable examples in recent centuries being the spread of English-speaking peoples, of Russians, and of Chinese over so much of the earth.

Conspicuous in antiquity were the Greek colonies the band of devoted youth (ἱερὰ νεότης), younger brothers going forth because there was no room for them at home, and bearing the sacred flame from the mother hearth. An equally grand example was the colonisation in the Middle Ages by the Christian Germans of the vast regions east of the Elbe occupied by sparse pagan tribes.

The other form of colonisation is the subjugation politically or commercially of other countries, and drawing supplies from them in the shape of tributes, rents, interest, or profits, and standing to them somewhat as all large cities do to the country districts around them. Most of the States of Western Europe, notably England, Holland, Belgium, and

France, have profited, or are profiting by this method of national expansion.

The French neatly express these two kinds of colonisation by the phrases *colonie de peuplement* and *colonie d'exploitation*. In our own Empire, Victoria and Manitoba are examples of the one, British India and the Niger colony of the other, while Queensland and Natal are mixtures.

A third kind of colonisation is the migration of whole tribes and peoples, such as that of the Gauls into Italy and Asia Minor before the Christian era, and later of the Teutonic tribes into the Roman Empire, and of the Sclavonians into Central Europe and Greece, and the victorious migrations of Norsemen and Arabs, of Tartars and Turks. But the primary business of economics is with civilised nations; and on these migrations it is enough to point out that they all presupposed a vigorous family life among the invaders, an habitual excess of births over deaths.

§ 4. **Evils of a Low Birth-rate.**—Besides colonisation there might appear another way to avert or remove the evil of overpopulation, namely, by a reduction in the birth-rate. But this remedy brings evils worse than the disease which it is meant to cure. For the low birth-rate required can only be reached by marriages being few, or late, or unfruitful; and this inevitably implies such an extension of immorality as would quickly injure national vigour, penetrating into home life, and causing an incalculable loss of economic goods, both personal and material. For the need of providing for a family, and especially a numerous family, is the greatest incentive to industry, frugality, invention, and perseverance; the mutual education and mutual insurance of the members of a large family is one of the greatest barriers against impoverishment; the home life of a number of brothers and sisters

together the most abundant fountain of earthly happiness; whereas immorality poisons these waters and is itself moreover an active cause of poverty. Hence no delusion is greater than to suppose that a nation can live in what is called *the stationary state* with births and deaths at a level, with a minimum of poverty and a maximum of culture and happiness; for it will inevitably abound in selfish indolence, in sensuality and greed, with discord, misery, and impoverishment as the consequence, and is likely enough, having once made this evil start, to travel onwards along the high-road to national extinction.

Among the Australian aborigines families are very small, and marriage is strictly forbidden till men reach the age of 28 or 30. Perhaps this was a remedy against overpopulation adopted by these miserable hunting tribes in a perpetual struggle to secure an adequate supply of food. But the remedy has only helped to perpetuate their degradation.

Among the pastoral, or semi-pastoral tribes of Central Asia a large portion of the inhabitants remain unmarried as "lamas" in the Buddhist monasteries. Perhaps this too, as has been suggested, was to prevent overpopulation. But it has effectually destroyed their national vigour; the former terror of Europe and Asia, they are now being absorbed by the Chinese, and the necessity, and therefore the spur, to pass from pastoral to agricultural life has been wanting.

The classical Greeks openly and avowedly tampered in their frivolous rationalism with the sacred springs of family life, limited their families, fell into the most degrading immoralities, lost all genuine patriotism, and lay for centuries in a slough of despond, feeble and foul, till Christianity came and renewed among them a stock of vigorous homes, and the possibility of political regeneration.

On the South Sea Islanders *see* APPENDIX F.

§ 5. **Apparent Dilemma.**—But another difficulty appears in our way: the very colonisation which has been given as a remedy, is only a temporary remedy, only puts off the evil day. For what will happen, it

may be asked, when all the land available for colonisation is occupied? Are we not brought once more to the dilemma of overpopulation on the one side, and the worse evil of limitation of marriages or births, to infanticide or to other horrors on the other side? Nor are we to be allowed comfort by imagining this to be a matter of a future too remote for practical concern. On the contrary, it was calculated at the British Association in 1890, that taking the actual population of the globe at about 1,500 millions, and the number that could live on the earth at about 6,000 millions, an annual excess of births over deaths by only eight in the thousand would fill up the earth in less than two centuries.

Now it may rightly be objected to these figures that the capacity of the earth has been greatly underrated, and that even without any fresh inventions and with only our present knowledge and skill, not merely four times the present population of the earth could find support, but fourteen times or more, and that this multiple in its turn may be doubled or trebled by the progress of inventions. Let us, however, for the present, leave the figures as they stand; for the difficulty, even if exaggerated, can be answered adequately by two arguments from history.

§ 6. **First Historical Answer.** — Historical science has made known to us that the world has been inhabited much longer than we thought, and is every day making more evident the number and magnificence of ancient civilisations that have perished. Now, if overpopulation is a real danger as alleged, we may ask why it has not come upon

the world long ago, why for example the ancient nations of Guatemala, or Cambodia, or Mashonaland did not long ago double their numbers every 50 years and fill the earth? And the answer in their case is the answer in ours, that every civilisation is constantly threatened by the double danger of catastrophes and corruption; so that the excess of births over deaths—the annual ten to twenty in the thousand that I have required—is a sort of insurance against sudden and fearful excesses of the death-rate that are to be expected from time to time, and a sort of provision against the decline of births only too likely to come in the future.

Of catastrophes the chief are pestilence and warfare. For famines, floods, earthquakes, eruptions, are more or less local, rare, unimportant, or preventible. Pestilence, perhaps it may be said, has lost its power before the progress of medical science and sanitary precautions. But this is very dubious; recent historical science has shown that among the masses personal cleanliness was greater in the middle ages than in the seventeenth, eighteenth, or nineteenth centuries; nor can the great pestilence that suddenly cut off half Christendom and much of heathendom in the fourteenth century and raged alike in town and country, be satisfactorily explained by any deficiencies of doctors and drains; still less the destructive plagues a thousand years before in the Roman Empire; for the Romans, if they were anything, were sanitary engineers. Also some races seem incapable of resisting certain new diseases, such as small-pox, which depopulated Spanish America in the sixteenth century. Then, whatever sanitary science may accomplish, warfare, whether foreign or civil, remains as a catastrophe ever imminent, and capable in a few years of undoing a long period of growth. It took Germany a century and a half to recover from the Thirty Years' War. The Spanish language would now be spoken by some 160 million people instead of some 60 million, had not civil war during about sixty years been chronic in Spain and Spanish America. Millions upon millions perished during the space of fourteen years in the Taiping rebellion in China, and whole regions were depopulated. True that the spread of

humanitarianism and cosmopolitanism made many people think towards the middle of the nineteenth century that bloodshed was at an end. But their hopes were dreams: the visible growth of national rivalry and gigantic armaments can only issue in desperate struggles; while not a few among the nations are troubled with the growth of internal dissensions and accumulations of social hatred that point to bloody catastrophes in the future; and the tremendous means of destruction that modern science puts in our hands, open frightful possibilities of slaughter: murderous anarchical outrages, and rivers of blood shed in pitiless repression.

§ 7. **Second Historical Answer.**—In view of these facts of history it is unreasonable to assume that no great catastrophes are before us which will greatly reduce the numbers of the world's inhabitants. And, again looking to history, it is unreasonable to assume that the actual birth-rate of the vigorous nations of the present will not sink and their vigour be smitten with decay. The Greeks, whose colonies once encircled the Mediterranean, became afflicted with the disease of rationalism, looked on children not as God's blessing, but as a burden, and lived either in vicious celibacy or in sterile marriage, limiting to one or two the number of their offspring. Indeed, a new word, *oliganthropia*, was formed in the language to express the paucity of population due to this diseased home life; and the conquering Romans in their turn were infected with the evil contagion. But look at more recent examples. The immoral home life of a great part of the Mahometan world has changed the triumphant foes of Christianity into helpless and decaying nations, whose dominions are becoming the fields for European colonisation. Among the French, after irreligion had got the mastery over a great part

of the people, the birth-rate steadily declined, and from 33 per thousand at the beginning of the nineteenth century sank to 22 per thousand at the end. How totally disconnected is this matter with race or country, how wholly dependent on morals and religion, is seen by the same phenomenon appearing among the descendants of the English Puritans in New England, where *pari passu* with the decay of religion and morals the birth-rate has dwindled still more strikingly than in France.

The actual figures indeed appear higher than those of France; but it is only appearance, for the many Irish and French-Canadian immigrants with their large families mask the decay of the native New Englanders. The force of this moral plague over large parts of the Union can be traced in the Census Returns for 1890 when, in view of the vast immigration during the decade since the previous census, a population of 65 millions was expected, but only 62½ was returned; again in 1900 only 75 millions instead of the expected 80. And now Australia and New Zealand appear in like manner affected; for their birth-rates shrank rapidly in the closing years of the nineteenth century.

In England also, we see a rapid decline of the birth-rate in the last few years, with no exodus like that from Ireland to account for it. Thus for the twenty years ending in 1880, the average birth-rate was 35·3 per thousand, but since then has fallen with scarce any break, and in 1905 was 27·2. If this process is not arrested the spectre before us will no longer be overpopulation, but *oliganthropia*.

It is a significant fact of history, and before the tribunal of science those are out of court who will not face it, that wherever the Christian family has been abandoned, it appears no longer possible for these after-Christian populations to return even to the family life of pre-Christian times, or to escape decay. Heedless of this, we in England for the last thirty years have been tampering with Christian family life

both among the richer classes, by the permission and publicity of divorce, and among the poorer classes by the godless schools and the cessation of parental authority. Thus, like several other nations, we have of late years with perverse ingenuity been preparing the way for the low birth-rate of irreligion and the high death-rate of civil disorder.

See APPENDIX G.

§ 8. **Conclusion on Overpopulation.**—The foregoing historical argument ought to dissipate the fear of an overpeopled world, and show us how unreasonable it is to suppose that the population of Europe, because it has increased during the last hundred years by about 160 millions, will increase at the same rate during the next hundred years: we might as well argue that because a man is six feet high at the age of twenty, he will be twelve feet high at the age of forty. Moreover, there seems a probability, apart from any spread of vice, that the physical life in great cities is injurious to fertility; and with the vast growth of such cities in so many countries, this matter becomes serious. Then also, as already noticed, that previous calculation of the numbers the world can support is much under the mark; and we have besides no reason to suppose that the progress of invention is to be arrested: such a supposition would be arbitrary. Finally, this question is theological: the Divine government of the world is concerned, and it is absurd to suppose that mankind would be reduced to the alternative of misery or vice, or that the end of the world, which we know is coming, would not come to prevent such an alternative, or some other issue not be contrived for us. Hence any difficulties that imagination may conjure up, should be left according to the process

of logic proper to the case, to be solved by the care of Providence.

§ 9. **Essence of Malthusianism.**—A few words must be added on the theory of population which has been so conspicuous in English economics for a century, and which is known as *Malthusianism*. The foundation of the theory is the proposition that existing poverty and suffering in many countries is due in great part to overpopulation, that consequently the only remedy is in some way to diminish the numbers or restrain the increase of the inhabitants, and that without such diminution or restraint all efforts at remedying misery are ineffectual. This is the characteristic doctrine of Malthusians: in the words of one of them, "If only the devastating torrent of children could be arrested for a few years, it would bring untold relief." (Cotter-Morison.) They imply that overpopulation is a pressing evil and actual problem; and on the truth and falsehood of this doctrine their whole system depends.

But when we ask for proof of this root-doctrine of Malthusianism we find that it is either taken for granted as self-evident, or a proof given that is untenable.

Thus Malthus spends infinite pains in showing that all nations we know of are so prolific that their numbers would have increased rapidly and constantly if it had not been for the *positive check* in the shape of starvation, disease, war, and infanticide, and the *preventive check* in the shape of late marriages or celibacy. But this does not go one step towards proving that the starvation, disease, war, infanticide, and most misery and vice have been due to increase of population. It is no use to say they might be; for the point is what *was* their

cause, not what might have been. It is no use again to say that misery has in fact been due in some cases to over-population. Likely enough this is true, notably in small islands or remote mountain valleys where the inhabitants have been unable or unwilling to send out colonies; but this is no proof or presumption that the misery in whole countries like England or Belgium, or Italy, or Bengal, is due to population pressing on the soil. The truth is, that in all, or almost all, the countries cited by Malthus or by modern Malthusians as examples of overpopulation, we can find abundant causes of the vice and misery among them in human injustice, violence, and corruption; and we find as well abundant physical resources for the actual inhabitants. (An explanation in detail of the three cases of Ireland, British India, and England, is given in the present writer's *Groundwork of Economics*, pp. 618—629.)

§ 10. **Misrepresentations about Malthus.**—The first edition of Malthus' famous Essay on the Principle of Population was published in 1798, and was a pamphlet against the communistic doctrines of Condorcet and Godwin, who represented vice and misery as due to human institutions, and remedial by an even distribution of property. To this Malthus objected that the principle of population was the cause of vice and misery, the principle being that while population, if unchecked, increased in a *geometrical ratio*, subsistence could not increase faster than in an *arithmetical ratio;* and that mankind was, in fact, ever increasing faster than the means of subsistence, and vice and misery the inevitable consequence whatever government or institutions prevailed. And in a famous passage he spoke of there being no vacant cover for the superfluous child at nature's mighty feast; she tells him to be gone, and will quickly execute her own orders. In the second edition of the Essay this graphic passage was modified and in later editions expunged, while a quantity of facts were introduced showing how vice and misery had checked population; and besides these the new check of moral restraint was introduced. But this destroyed the force of his argument against Godwin, who could reply that precisely a socialistic state of society was what was wanted to make "moral restraint" universal and effective. (See Cannan, in *Economic Review*, Jan. 1892.) In later editions Malthus made further alterations, and came to think that the "evils resulting from the principle of population" may have rather diminished than increased with the progress of society. Also he reprobates artificial and unnatural modes of checking population as immoral and as removing the necessary stimulus to industry. Thus he nearly approached the truth

that increase of population is required for man's morality, industry, invention, and dispersion, and to say he teaches immorality is calumniously to confuse him with later Malthusians. But he was muddle-headed, with "a mist of speculation over his facts, and a vapour of fact over his ideas" (Bagehot, *Economic Studies*, p. 193); and the Essay on population from the first edition to the last is rendered useless by the πρῶτον ψεῦδος, or root-error, strangely ignored in the defence of him by Professor Marshall, that vice and misery are in fact principally the result of over-multiplication.

§ 11. **Explanation of the Prevalence of Malthusianism.**—The reasons that account for the prevalence of Malthusianism are partly historical. The knowledge of the rapid possible increase of population, as seen by the example of North America and the simultaneous knowledge of the law of diminishing returns, deeply impressed the imagination of the age of Malthus, and made the increase of the human race appear as a terrible and mischievous force; so that overpopulation, instead of being looked on as a mere possible source of misery, appeared as a probable, nay, even as the chief and actual source; though in fact nothing could be more untrue.

Hence, although the main doctrine of Malthus was not new, but to be found in the French Physiocrats and the Italian Ortes, the prevalence of the doctrine was new. Moreover, the condition of England seemed to confirm it, England with limited area, no cheap and sure means in prospect of importing abundant food, with population rapidly increasing, with a poor law meant to favour large families, and with the rapidly increasing misery and degradation of the poorer classes. The real cause of the misery, the Industrial Revolution with the undoing of the old organisation and old laws which protected the weaker classes—this was not understood, and the false but plausible explanation by over-population was accepted.

Then partly as a cause, but more as an effect of the theory of overpopulation and confirming it, came the theory of the wages fund (*infra*, Bk. III. ch. iv. § 11), supposing a definite sum to be distributed as wages among labourers, so that the more numerous they were, the less was the portion of each individual, and that a limitation of their numbers was thus the only remedy for low wages. Malthusianism also from its beginning served as a weapon against Socialism; it has not suffered from the dubious physiology of some of its opponents (Doubleday, Proudhon, Herbert Spencer) alleging that fecundity was lessened by increase of wealth, of good food, or of intelligence; and it has profited by the mistake of other opponents (Carey, Bastiat, Henry George) who tried to confute it by denying the law of diminishing returns. Finally, Malthusianism appealed to the bad side of our nature, was a ready weapon against Christian teaching on morals and almsgiving, an argument against Divine Providence, an excuse for all sorts of neglect or oppression of the poor by the rich.

§ 12. **Answer to Two Difficulties.**—Two cases deserve notice because they have misled among others the American economist Walker. One is the case of colonists in a new country after they are numerous enough to profit by the law of increasing returns and can enjoy the advantages of the industrial progress developed in old countries, and can enjoy at the same time the rich and abundant land of new countries. Walker thought they could keep this exceptional position indefinitely by checking reproduction at the line of the highest *per capita* production of food, clothing, shelter, and fuel. (*Polit. Econ.* § 402.) But this line is not easily ascertainable or fixed once for all, but liable to change with man's knowledge and capacities (as observed by Mr. Cannan, *Theories of Production and Distribution*, p. 182). Above all, this *per capita* maximum implies moral qualities which only large families can provide and which are withered up by sterility; so that in the nature of things that great abundance is accidental and temporary. In the sweat of our brow we must eat our bread; and the Christian ideal requires only an adequate production of food, clothing, shelter, and fuel, not a maximum; those economic goods of which it does require a maximum being of a higher character.

The second case is that of famines whose prevalence appeared to Walker a proof of reckless multiplication. But overpopulation, as we have seen, is an exceptional phenomenon, and the famines of real life have not been due to any pressure on the soil. The failure of crops is not more likely where there is intensity of cultivation than where there is not; indeed,

less likely because of the greater variety of crops; and in fact during the last fifty years famines have occurred alike where population was dense, as in Oudh and Bengal; or where moderate, as in Ireland, Madras, Bombay, and Northern China; or where thin, as in Persia, Rajputana, Asia Minor, Northern Brazil, and Eastern Russia. Some of the real causes of famine have already been named in chapter vii.; and some of the real causes of the chronic poverty of India will be named directly.

§ 13. **Disastrous Results of Malthusianism.**—During the nineteenth century this doctrine has wrought immense mischief both on economic theory and practice. For example, the chief English work on economics since the *Wealth of Nations*, namely, John Stuart Mill's *Political Economy*, was spoilt by the constant infection of this immoral delusion; later a vile literature and abominable proposals best unnamed became current, and in general such blindness to facts was produced, such blindness to history, such blindness to the essential features of sound domestic and national life, that an economist of the great and deserved repute of Walker could gravely hold up for admiration as an example of "prudence" and of "a rising standard of living," the sterile families of France and New England. Then in practice Malthusianism has been a grave discouragement to all works of social reform and humane legislation, which appeared as foolish sentiment defeating its kind aims by encouraging population. Thus in England the demoralising laxity of the old Poor Law was succeeded by the equally demoralising severity of the new Poor Law (as we shall see in Book III.). Thus in Ireland during the first half and more of the century all

amendment of her piteous economic condition was hampered by this dreadful delusion. And just the same has happened during the second half of the century to British India, whose Secretary of State still repeated in August, 1899, the Malthusian apology for the appalling poverty of the great majority of the inhabitants of British India, that it was a consequence of the rapid increase of population which has been made possible by the *pax Britannica*.

Students of India know well that the chronic poverty, seen just as much in the thinly-peopled as in the thickly-peopled regions of that continent, requires no hypothesis of over-population to account for it, there being an amply sufficient cause in various obvious and admitted evils, of which four may be briefly mentioned: (1) The grave discouragement to all rural improvement and in particular to the sinking of deep wells, by the absence outside Bengal of fixity of tenure, the landholder having the prospect of his assessment being raised every fifteen or thirty years. (2) Through most of India the unchecked oppression of usurers, in whose toils many millions of landholders are so bound as to lack means or motive for the proper cultivation of the soil. (3) A system of law and police totally unfit for small cultivators, witness the plague of litigation, appeals as 250 to 1 in England, habitual perjury, manufactured crime, and blackmailing by corrupt native police, all destructive of rural amity, co-operation, and industry. (4) Taxation oppressive both in quantity and quality: demanded on pain of eviction and imprisonment to be paid punctually and rigidly in cash, instead of optionally or occasionally in kind, or flexible, according to the variations of the seasons; moreover levied on salt, raising the price of this necessary of life at least ten times, often much more; when precisely an abundant supply of salt, with the climate and diet of much of India, is a prime need for men and cattle.

So then, when salt shall be sold in India at cost price, and usurers punished as thieves, and rational village tribunals and properly paid police at work,

and fixity of tenure universal, and deep wells abundant, and each village with its grove of trees for fodder and fuel, and each locality with its grain store to meet failure of crops, and the peasantry relieved of a third of their taxation; then, and not till then, if the woeful poverty continue, will it be time to attribute it to the joint action of the *pax Britannica* and the principle of population.

§ 14. **Policy of Government on Population.**— From the foregoing discussions on the family and population it ought to be evident that the business of every wise and Christian Government in these matters is two-fold: first, by the civil laws on marriage, on family property, on paternal power, and on public morals, to foster and protect Christian family life; secondly, wherever it is needed to facilitate, according to the circumstances of the country, either emigration or immigration. But attempts of the civil power to drive people into marriage or to drive them away from it, like the legislation of the ancient Greek states or of Rome, or those of the autocrats of Europe in the seventeenth and eighteenth centuries, are either foolish or mischievous.

The English poor law of George III.'s reign, meant to encourage population, and the "reformed" poor law, meant to repress it, have both been injurious, though in different ways, to Christian family life, and hence have both been promoters of misery. In Canada under the old French monarchy penalties were imposed on the unmarried, that the colony might grow fast in the face of its English rivals. This ordinance was probably ineffectual rather than mischievous; whereas the disgraceful laws in various German States, giving the parish a veto on the marriage of poor people, was a fruitful source of immorality. Many of

these laws lasted till 1868; and the weakness of Austria and South Germany compared with Prussia may have been in part due to the freedom of the Northern State from this degrading tyranny.

Indirectly indeed all good Governments favour the increase of population by fostering the development of resources, turning to account the capacities of land and people, for agriculture, mining, manufactures, and commerce, and hindering as far as possible all misdirected production and consumption, all waste and destruction.

§ 15. **The Evil of withholding National Resources.**—We have yet to examine certain barriers which prevent the increase or even the subsistence of the actual population of a country, and which can be called by such names as artificial sterilisation, or lessening the intensity of industry, or withholding national resources.

Such barriers imply that much property belongs to comparatively few owners, and that their ownership is more or less absolute and uncontrolled. Then motives of profit or of pleasure may induce them to keep their property undercultivated or even to lessen the previous intensity of production. And if many owners do this the nation may be seriously affected in the number of its inhabitants.

Let us use some figures to explain the operation of withholding resources. Suppose an absolute owner of land from which, besides his own family, a hundred other families, all peasants, get their living; each peasant family producing goods of the average value of £50 a year, which serve to pay £10 a year as rent to the owner, leaving £40 as net income for themselves. The estate shows a population of 101 families and £5,000 net income, of which £4,000 goes to the peasantry and £1,000 to the owner. Now in a commercial society it may

become the pecuniary interest of this owner to lessen the intensity of cultivation, throwing several small farms into one large one, producing wool, meat, or dairy produce for sale, not for consumption on the estate, and turning arable land into pasture, or raising corn indeed, but only scanty crops over a large area, not great crops on a small area. With this changed form of production 50 families now cultivate the whole estate instead of 100, each producing the value of £65 annually instead of £50, and paying £25 to the owner instead of £10. His income, therefore, is now £1,250 instead of £1,000, but from the point of view of public welfare and national strength that portion of the country shows a net income shrunk from £5,000 to £3,250, and a population scarce over half what it was before.

§ 16. **Historical Examples.**—These dry figures represent a tearful page in history; for where the two conditions precedent have come together, namely, unrestraint of those in power and a commercial situation making it the private interest of the powerful to lessen cultivation, the same consequences have ensued, and thousands of families have been cast forth from their homes amid incredible sufferings. Notable instances have been, Italy under the Roman Republic, England from the end of the fifteenth to the end of the sixteenth century, the Highlands of Scotland in the second half of the eighteenth century, and Ireland in the nineteenth century.

Thus, to take a very early instance, it happened in the manor of Stretton Baskerville in Warwickshire, that "Thomas Twyford having begun the depopulation thereof in 4 Henry VII. decaying four messuages and three cottages, whereunto 160 acres of errable land belonged, sold it to Henry Smith, gentleman. Which Henry following that example in 9 Henry VII. enclosed 640 acres of land more, whereby twelve messuages and four cottages fell to ruine, and 80 persons there inhabiting, being employed about tillage and husbandry, were constrained to depart thence and live

miserably. By means whereof, the church grew to such ruine, that it was of no other use than for the shelter of cattle, being with the churchyard wretchedly prophaned, to the evil example of others." (Dugdale, cited by Dr. Cunningham, *Industry and Commerce*, Vol. I. p. 399.)

Such a process may not indeed result in a material loss to the country as a whole; for the displaced cultivators may be shifted to some other district or new employment, and the less intensive production on the cleared estate may be compensated by more intensive agriculture or manufactures elsewhere. But failing such transfer, and where the ejected cultivators have only exile or beggary or starvation to choose from, the results on national power and wealth may be startling. So in less than half a century Ireland lost about four millions of her inhabitants, or nearly fifty in every hundred; and much of her surface sank back into a dismal waste of heather, or thistles, or moss.

An increase of a country's population can in like manner be checked where much of the land is held in large properties, or rather where the laws and customs of holding land are such that farms continue in existence extended over a large surface and worked so as to yield but a scanty produce. Thus probably in the eastern provinces of Prussia and in the south of Portugal, where the scanty population and slack agriculture form a striking contrast to the well-peopled regions along the Rhine in the one monarchy and along the Douro in the other. Compare again the rich lands of County Meath withdrawn from spade or plough, the sad solitude scarce broken by a few herdsmen tending cattle, with the happy change in a district of Lincolnshire, under Lord Carrington, where 378 acres were planted with 130 tenants (or some 650 souls) in the five years between 1890 and 1895 to the enrichment and welfare of themselves and of the nation.

Observe that indolence or pleasure as well as the desire of profit may cause the withholding of resources, and pleasure-grounds or hunting-grounds may be so extended as to cause a

serious loss to agriculture, as probably in ancient Latium and perhaps in modern Scotland. But the nature of the case keeps this evil within bounds, as the owners must draw a revenue from elsewhere; and the presence of wealthy people during portions of the year allows no small number of the inhabitants to gain a livelihood.

The resources which a country possesses in its mines, quarries, and fisheries, can in the same way lie unused or undeveloped, preventing many getting a living, as they might otherwise do, within its borders.

In the case of manufactures, transport, and commerce, we see an analogous phenomenon. Where indeed there is no monopoly the evil is only transitory, as when mills are run half time, furnaces blown out, goods withheld from sale, and when banks refuse to give their ordinary help in the mechanism of trade. Thus means of production lie idle or only half used, and many workmen get no work or only half work, and for a time there are "too many" poor people in the country, just as after wholesale evictions, only with the difference that within a few months or a year or two employment will be found within the country in the one case but not in the other. These temporary cessations of production will be more fully explained in the next Book, and also the nature of monopolies, and how it can be the interest of monopolists, as it often is, to keep down production and draw a larger revenue for themselves by selling fewer goods at higher prices, or carrying fewer passengers and goods at higher fares, than more at lower prices or fares.

But a popular, humane, and Christian Govern-

ment will hinder all forms of withholding national resources, whether this evil takes the shape of monopoly prices, or the "clearance" of estates, or any other shape.

The charge against machinery of injuring the poorer classes has already been answered at the end of chap. iv. If indeed an irresponsible monopoly controls some industry, no one can tell the extent or duration of the injury which mechanical inventions may enable or induce the monopolists to inflict on the workpeople or on the nation. But let the blame fall on those who are responsible, on the perverted institutions of man, not on the innocent and lifeless mechanism of copper or steel.

Some writers use the phrase *reiative overpopulation* to express the plight of evicted tenants and others who cannot get a living because national resources are withheld; and this in contrast to *absolute overpopulation* where population presses on the soil. But it is misleading to use the common term overpopulation for evils which are so different both in their causes and their remedies.

POLITICAL ECONOMY.

Book II.

Exchange.

CHAPTER I.

TRADE IN GENERAL.

§ 1. **Meaning of Exchange and Trade.**—The meaning of exchange has been explained in the Prologue as any transfer of goods to another person in consideration of some return. And since goods include personal services, all questions of workmen and wages might be included in this Book. But as there are profound differences between the causes that affect on the one side the prices of merchandise or the hiring of material goods, and on the other side the hiring of men's services, it is more convenient and logical to treat them apart. In the present Book therefore our inquiry is limited to why people buy and sell instead of each family providing for itself; how the price of merchandise is deter-

mined; what is the nature and use of money, and of the various contrivances for saving the use of money, and for postponing payments.

It should be observed at the outset that the existence of private property is supposed. For exchange is not the mere moving about of goods, but the transfer of ownership from one person to another. It is true that communistic groups might act as persons, and trade with one another; but our business is with the real world; and thus taking things as we find them, and perceiving that the earth is divided among nations, and that each national heritage is divided among private persons, we observe how *trade* (that is, habitual as distinct from occasional exchange) enables our land and our fatherland to be turned to the best account.

§ 2. **Five Main Reasons for Trade.**—(1) The personal advantages springing from division of labour, such as increased dexterity, utilisation of varieties of capacity, saving in cost of learning, and the rest, as explained in the third chapter of the previous Book. Hence in one village not every man is a smith, a potter, a cobbler, a thatcher, a carter, a storekeeper; but each keeps to his own business and gets what he needs by exchange. This reason, however, only accounts for petty local trade. To account for trade between distant places we need another reason, which is the following:

(2) The physical diversity of the world whereby instead of everything being producible everywhere, much can be produced not at all in some places and only with great disadvantage in others. It is practi-

cally impossible to produce coal in Holland, wine in Scotland, mahogany in England, petroleum in Ireland, slate in Middlesex, or cotton in Lancashire; yet all these countries or districts require great quantities of these goods.

Often a thing is wanted most where it is least easily produced, as ice in the tropics, the furs of wild animals in great towns, or salt for men and cattle far from the sea and the salt-mines. Then again as Ruskin observes (*Munera Pulveris*, ch. iv.): "Labour requiring the agency of fire can only be given abundantly in cold countries; labour requiring suppleness of body and sensitiveness of touch only in warm ones; labour involving accurate vivacity of thought only in temperate ones." This last point indeed is disputable. Sometimes, again, though quite possible to produce certain goods at home, they are imported from abroad because in this way they are or they seem to be got at least cost. Thus immense quantities of wheat are annually imported into England, not because in England the quantity required could not be grown, but because the cost of obtaining it from Russia, India, or America is less or seems less.

(3) A third reason for trade is the advantage that comes from that concentration of a manufacture and of allied manufactures in one place, which is called the localisation of industry, and which was explained in the earlier part of the fifth chapter of the previous Book.

(4) A fourth reason for trade is the advantage of producing on a large scale, as explained in the second part of that same chapter.

(5) A fifth reason is the concentration of dwellings partly due to industrial, partly to non-industrial causes. This also in the middle of same chapter has been explained: and the result is a growth of towns instead of a nation being scattered all over its territory in homesteads and hamlets. Now it

follows that as the inhabitants of towns must be supplied from a distance, the existence of towns implies considerable and habitual exchange. Hence trade and towns go together, and if in any country there is but little exchange, the towns in it can only be scanty and small.

§ 3. **Principle of Comparative Advantage.**—In judging the advantage of any person, place, or region for producing some particular merchandise, it is not the absolute but the comparative cost which is decisive. Peter may be able to make both boots and coats better than Paul, but if he is only ten per cent. better in making boots and fifty per cent. in making coats, it will be to their mutual advantage that he makes coats only. A physician, though a most skilful compounder, will not himself mix his drugs, but lets another do it, though with twice the time and trouble, because the physician's time can be employed so much more profitably. Much rich land near towns would, acre for acre, be far more productive for raising live stock or growing timber than the remote and less fertile districts whence they are drawn; but as the relative advantage of the rich land so situated is still greater for market-gardens or dairy farms, it is used for these purposes. At one time the landowners in Barbados got almost all the provisions for their negroes from the United States, though they could have grown them cheaper at home, because it was still more cheap to grow sugar, and exchange sugar for provisions.

These cases are illustrations of the principle that can be called the *principle of comparative advantage*.

This principle of comparative advantage is sometimes called *the law of comparative cost*, sometimes also misunderstood as though it applied only to international trade. As the mutual benefit coming from trade depends on the difference of personal or local advantage *minus* the costs of carriage and transfer, two consequences follow. *First*, the greater the diversity the greater the gain, and *vice versa*. So between places and peoples much alike in habits and physical circumstances trade is not likely to be so active as between town and country, highlands and lowlands, mineral and urban regions, hot and cold climates, between all of which nature incites to communication. *Secondly*, the gain from exchange having to be docked by the cost of carriage and of transfer, there is a constant inducement to lessen these costs; and conversely, all improvements in communications render more trade possible. Hence the marvellous growth of trade in the nineteenth century has been concomitant with a marvellous improvement in the means of transport and also in the means of information. For remember, besides the physical carriage there must be the means of finding the purchaser, and this has been made ten times easier by the telegraph, goods being able now to be sent, no longer at a venture, but to order, from one end of the globe to the other.

§ 4. **Advantages and Drawbacks of Trade.**— The vast importance of trade is evident from the five reasons given for it in this chapter, and from what has been said on industrial organisation in the previous Book. Without trade there would be little scope for the law of increasing returns; without trade there would be little scope for industrial progress; without trade the spread of intellectual culture (as of the Greeks), or of a world-wide religion, would have been marvellously hindered. But then, as we have seen, such is the state of man, that industrial organisation is liable to grave drawbacks, such as misdirected production, misdirected consumption, or increase of dishonesty; and trade, like other forces at man's disposal, has been put to

a thousand ill uses and has caused incalculable suffering. "Trades have been fostered which ought never to have arisen, and trades have been destroyed which ought to have been developed." (Nicholson, *Polit. Econ.* ii. 7.) Witness during the nineteenth century the importation of spirits and gunpowder into Africa and the exportation of slaves; the opium trade with China, the destruction of many of the handicrafts of India, the destruction of most of the trades of Ireland. Half the wars of nations have been trade wars, and countless exchanges have been the occasion of fraud or extortion, resulting in a material injury to the one contracting party and a moral injury to the other. Only the remedy is not to stop trade, but to stop the abuse of trade.

Thus, as we have seen (Bk. I. ch. vii. § 4), trade, according to its use or its abuse, can be a preventive and can be a cause of famine. The curious worship of all exchange by the classical economists was often held up to ridicule by Ruskin—their "notion that Business is always good, whether it be busy in mischief or in benefit; and that buying and selling are always salutary, whatever the intrinsic worth [capacity of promoting real welfare] of what you buy and sell." (*Crown of Wild Olives*, p. 11. Edit. 1895.)

§ 5. **Recapitulation on Value, Price, and Money-price.**—To avoid mistakes it may be well to recapitulate what has already been said (in the Prologue) on value and price, and the meaning attached to them in this Manual. Value is the capacity of any good to be estimated as desirable, and is individual value if the estimate is made by a single family or individual, and social value if made by a larger group of men. Price is the expression

or measure of value, and is a definite quantity of some exchangeable good.

Thus if a farmer in a remote settlement is willing to exchange with his one neighbour a sheep for six bushels of corn, this definite quantity of corn is the expression and measure of the value of the sheep to the farmer, based on his single estimate. But if he live within reach of a market, and taking the sheep thither exchange it for six bushels of corn, this definite quantity of corn is the expression and measure of the value of the sheep to the public, based on their common estimate.

Further, in all highly civilised societies, some particular good is adopted to serve as a measure of value and medium of exchange, and called money (as we shall see). Now price expressed in this particular good is obviously to be called price in money or money-price. But in fact in all highly civilised societies prices are habitually expressed in money, and thus price and money-price are habitually used as equivalent. Therefore many writers of authority confine the word price to money-price, and apply the term value in exchange, or exchange-value, or value simply, to what other writers (the present one included) call price. The objections to using value in this manner have been given in the Prologue. Here it is sufficient to give students the caution to make sure of the meaning of the words value and price adopted by the author they are reading.

§ 6. **Discussion on the Relativity of Value or Price.**—Thus when Professor Nicholson (*Polit. Econ.* Bk. III. ch. ii.) urges the *relativity of value*, and points out that a general rise or fall of value is a contradiction in terms, we have only to remember his use of terms, and that by value he means what in various other works, this one included, is called price; and then we

see instantly the truth of his contention. For price by its very nature is relative; when we say the price of hats reckoned in boots has risen, we are saying that the price of boots reckoned in hats has fallen; the propositions are identical. So again, if the price of silver reckoned in gold has fallen, this means that the price of gold reckoned in silver has risen.

No doubt if we take a particular good such as a bushel of barley, or a day of unskilled labour, or the gold contained in a pound sterling, and compare many other goods with one of these, we can speak of a general fall of prices reckoned in barley, or of prices reckoned in labour, or of prices reckoned in gold; meaning by this that most exchangeable goods now require for their acquisition fewer bushels of barley, or fewer days' labour, or fewer gold pieces than formerly. In the same way a general rise of prices reckoned in barley, or labour, or gold, means that most exchangeable goods now require for their acquisition more bushels of barley, or more days' labour, or more pieces of gold than formerly.

But these cases leave intact the contention of Mill and Nicholson that "value [=price] is a purely relative term." For in these cases we are still examining the relations of goods to one another. Only instead of examining the relation of one good to another good, we are examining the relation of one good to a great number of other goods. But as in all cases of price, these are cases of comparison and relativity.

It is otherwise when we leave price, which is objective and clear (whether we call it by the name of price or of exchange-value) and turn to value which is ethical, subjective, and obscure. For value (in the sense adopted in this Manual) whether individual or social, is not necessarily relative. A general rise of values is conceivable, or a general fall and a total disdain of earthly goods. However fanciful the notion, there is no contradiction in it. Again, similar objects sold at the same price have different values to different people; and, as already explained in the sixth chapter of the preceding Book, under the theory of marginal value, different portions of similar goods have different values to the same person. And thus amid the clearness and precision of price we must not forget that it represents but imperfectly the obscurity and indefiniteness of value.

§ 7. **The Question before Us.**—In the present Book we are only concerned with value as the ground of price, and the question before us is why

so much of one thing is exchanged for so much of another. In mathematical terms (Professor Edgeworth's), looking at the ratio of the number of units of one commodity to the number of units of another commodity for which it exchanges, we seek the reason of the actual ratio. Or to take a concrete example, we ask why has a quarter of wheat in the wholesale trade in London been at certain times exchangeable for five pairs of stout boots? Or to put the question in another form, why did the wheat sell at fifty shillings the quarter and the boots at ten shillings the pair?

Now all prices are either market prices or not. Let us examine market prices first; for if we understand these, we shall easily understand all others.

CHAPTER II.

MARKET PRICES.

§ 1. **Meaning of a Market.**—The proper meaning of a market in economic science is an assemblage of many buyers and many sellers, all of them being more or less technical experts in the quality of the goods for sale, and more or less acquainted with external circumstances likely to affect the price; and where, moreover, all bargains actually made are openly known. Of this character are the great wholesale markets like that of corn in Mark Lane, of securities on the Stock Exchange, of raw cotton at Liverpool, of wool at Bradford, of sugar at Glasgow, of cotton-cloth at Manchester, of iron, brass, and copper goods at Birmingham; of this character also were the great annual fairs that used to be held in England at Winchester and Stourbridge, and such as is still held at Novgorod, in Russia; of this character also are the periodical sales in the market-towns of Great Britain and Ireland.

Limits of time and space are clearly necessary to a market. In mediæval Europe definite days and hours were fixed, and definite places assigned (like the "Grass-market" of Edinburgh or of Brussels) outside which no dealing was allowed in certain goods. But with the modern development of means of communication traders need not be literally assembled to make a

market; they may be scattered over a whole large town or over a region of country, if by the means of the post office, telephone, telegraph, and published price lists, they are in close communication. And the more portable the merchandise and efficient the means of communication, the wider can be the range of a market. And many modern markets are continuous in time, only interrupted by Sundays and holidays, and night time. (See the excellent chapter on markets in Nicholson, *Polit. Econ.*, Book III.)

It is hardly necessary to warn the student that "market" is often used in another sense to mean a mass of buyers, however unconnected, a mere aggregate of customers. Such is the word market in Adam Smith's formula, that the division of labour is limited by the extent of the market; or when we say that Africa is a new market for British goods. Whereas market in the strict sense implies necessarily a certain connection between the buyers; that they are not an unorganised aggregate but have knowledge of each other's dealings.

The great feature of such assemblages is that then and there for particular goods there is only one price, for example, fifty shillings for a fat sheep at Reading market on a particular day. You can sell one for no more, and get one for no less. This can be expressed by the formula that there cannot be two prices in the same market; and this price is the *market price*.

§ 2. **Four Factors determining Market Price.** —How is this price reached? The answer is another formula, that market price depends directly on demand and supply, indirectly on private estimates of cost and utility. All these four factors determining market price require explanation.

Demand and supply, in the simple use of the terms, only express the action of the two parties preliminary to every exchange, and are correlative terms, *demand* being the expression of a wish for some good by offering another good for it, and

supply being the offer of some good as the expression of a wish for some other.

Where money or substitutes for money are used, and thus practically in all commercial dealings, the word supply is applied to the action of those who offer other goods, and the word demand to the action of those who offer money or its substitutes. Moreover, demand and supply as operating in markets are not a single action on either side, but the sum of the action of a number of persons expressing wishes and offering goods.

The word *supply* is misleading. *Offer* would be the right one, and would prevent us confusing the offer for sale with the *stock* in existence. So Walker has to emphasise rightly enough the difference between stock and supply, the supply, namely the offer for sale, being often less, sometimes through speculation more, than the stock. But in French or German there would be no necessity for this explanation, as their words *l'offre* and *das Angebot* mean in ordinary discourse not supply but offer.

§ 3. **The Working of Demand and Supply.**— Buyers and sellers enter the markets with opinions derived from their information on the stock of the commodity in hand or soon available, and on the quantity those will require who finally use or consume it. These opinions meet and modify each other in the market; but as all the dealers are more or less experts, their opinions are not likely to be very divergent. And buyers and sellers also enter the market with different private necessities, some anxious to sell at almost any price, ready to take what they can get, others quite able and ready to wait to sell till another day; and buyers too, some eager to buy, knowing a profitable opening

for the employment of their purchases, others indifferent. And these various necessities and indifferences will mutually influence the action of the dealers, and the more so the greater the quantity any very eager buyer is demanding or eager seller is offering. A perfect knowledge of the dispositions of all the dealers would enable any one to fix a particular price at which the maximum quantity of goods could be exchanged, below which less would be sold, above which less would be bought; and this can be called the *proper market price* or *true equilibrium price*. This price is habitually nearly the same as the actual market price, but not quite the same, only an approximation; because even traders make mistaken estimates, and even in wholesale trades shrewd bargainers can somewhat influence price by their shrewdness. The difference between the proper and the actual price may be set down to what Adam Smith calls the *higgling of the market*, which is the less the more equal are the two sides in numbers, intelligence, and indifference, and the greater the total intelligence and the total numbers of the frequenters of the market.

§ 4. **Meaning of Free Competition.** — The action of buyers and sellers in a market, striving to make the best bargain, is a notable example of free competition. The word *competition* by itself is to be taken as the peaceable striving of several persons for some good, which only one or some of them can fully attain. If the competitors in the main are fairly matched, and the ignorant and weak are not pitted against the skilful and strong, nor a scattered

multitude against an organised body, the competition is *free* or *two-sided;* if otherwise, it is *unfree* or *one-sided*. Now the dealers in a market, from the very nature of a market, compete freely; and though all cannot attain what they wish, none can complain of a market price as extortionate: it would be a contradiction in terms.

But the last word has not been said about market price; we have only seen the immediate, not the more remote grounds for it; and have yet to answer the questions why the buyers and sellers come with those dispositions of mind to market, why the value to each dealer is what it is, and what will be the effect of this present market price on those of the future: all this depends on the private costs and the private utility to each dealer.

§ 5. **Private Costs of Production.**—The meaning of cost, as already explained (*supra*, p. 13), is personal sacrifice, the surrender of some good by some person. Now the mental dispositions of the seller of an article in the market are influenced by the sacrifices he has made in its regard, by his valuation of remembered or anticipated costs.

He may indeed, as the phrase is, *sell at a loss;* that is, the market price may not indemnify him for his costs. This does not mean that it would be better for him not to sell: he knows he would lose still more by not selling, as the price, though low, is of more value to him than the use he could himself make of the article. But he cannot go on bringing the article to market at a loss, and he must leave off unless either the price becomes more or his costs less.

Now what are these sacrifices or costs? Perhaps they can be put as the simplest method of arrangement under eight heads.

(1) The wages in any shape of any workmen, from the highest to the lowest, that he may employ in the production of the article.

(2) All rents or interest for any species of hired property that he may use in the production of the article.

(3) The taxes, whether levied by the local or the central Government, that fall on the production of the article.

(4) Replacement of all raw material used up or of machinery worn out, and repair of all ordinary damages.

(5) All purchases of goods and payments for bringing to market—costs of carriage, warehousing, advertising, that cannot be included under the four previous heads.

(6) Insurance against fire, robbery, fraud, failure of crops, whether the insurance take the shape of a reserve fund to meet bad debts, or of payments to an insurance company, or of physical precautions like fire-proof walls.

(7) Technical education of a successor in the business, or replacement of what has been spent on his own technical education.

(8) His own toil and trouble.

The sum-total of all these costs can be called the *private costs of production*. And if production is to be continued, the market price must be enough to indemnify him for those costs and to enable and induce him to continue at his post.

Some writers have therefore suggested the use of the phrase, *cost of reproduction*, instead of cost of production.

But there is little to be gained by the change; and, in fact, since not merely the anticipated future, but also the remembered past, exert influence on the mind of producers and dealers, it is better to use a word that will include the past as well as the future.

§ 6. **Variations and Complexity of Costs.**—The different elements or component parts of private costs of production may be arranged in different ways from that given above, and it is of little consequence as long as all are included and their variations and complexity is recognised. For observe how they vary immensely according to industry, time, place, and individual producers or dealers, no two men being in disposition and surroundings perfectly alike, and only a portion of the costs being capable of accurate measurement. Hence, for example, to discover what was the private cost of production of a pair of similar kid-boots to each of six boot manufacturers at Northampton, unless each was exceptionally intelligent and exceptionally communicative, would be a task of great length and difficulty. Thus a writer from his own experience tells us that "the varying conditions under which business is carried on, the differences in the various outputs, the fluctuations of the turnover in each, the opportunities which unlimited capital gives over capital which is limited, . . . the varying rates of wages paid for processes, the different systems adopted for bringing goods into the markets, and many other circumstances, make it impossible for a whole trade to adopt the conclusions [on the subject of costs] arrived at by any individual maker." (E. J. Smith, in the *Economic Review*, April, 1898.) So different indeed is the economic environment of different traders, that in the changeable conditions of modern industry we can attach no precise meaning to aggregate or average cost of production.

Observe also the two following *complications*. *First*, when we say that a man's private costs of production must be defrayed if he is to continue at his business, we do not mean that all his sales must be at a price adequate for that purpose, but only the sum-total of his sales over a certain period. This period may be weeks, months, even years, according to circumstances; and the larger the business, the more specialised the capital, the longer will it be endurable to sell at a loss. *Secondly*, in like manner where one person sells a variety of goods, the price of the whole must indeed defray (in due time) the costs of the whole, but not the price of each article the costs of each article. It is the same to the seller whether the articles A and B, each costing him 10s. both sell for 15s., or whether A sell for 10s. and B for 20s. True, if these prices continue, he will seek to reduce his

production of A and increase his production of B. But this is sometimes impossible; for very many goods are technically connected as **joint products**, like sheep and wool, honey and wax, hens and eggs, wheat and straw, coal-gas and coke, and different crops where for good cultivation a rotation of crops, such as of corn and roots, is required. So year after year goods may be brought to market and sold in a sense under cost price; but only because they are inseparable adjuncts to a profitable whole. This can happen even where products are not joint; for some goods are sold unduly cheap as a means of advertising others. Again, this can happen where for want of accurate book-keeping the different costs of different items are not accurately known, and a perpetual deficit in one department be met by a perpetual surplus in another.

§ 7. **Distinction of Private and Public Costs of Production.**—It is necessary to distinguish carefully in the matter of costs between the public or national and the private point of view. The costs we have been considering and which are chiefly influential on prices, are the *private costs of production*. To be costs at all they must indeed imply sacrifice; but then this sacrifice may be the advantage of others, the loss may be another's gain. Thus I may pay higher interest for what I borrow for my works, higher wages to my men, a higher price for my fuel; my private costs of production in consequence are higher, to my loss indeed but to the gain of my creditors, of my workmen, and of the colliery-owner. Quite different is the *national or public cost of production*, namely, the cost which is incurred by the nation considered as a whole and with a personality of its own. Here neither wages, nor interest and rents, nor taxes are cost; neither purchases of goods, except from foreigners; much of insurance also disappears, and the whole cost can

be reduced to two elements; on the one hand, the toil and trouble, corporal or mental, of all engaged in the process of production; and on the other hand, the amount of property used or used up in that same process.

These two kinds of cost must be constantly kept distinct. The private costs of production can often be measured with some approach to accuracy, being in great part sacrifice of exchangeable goods of which the price is known; whereas the public costs of production escape all accurate measurement, belong to a higher region than that of ordinary book-keeping, and are ever varying with the changes in the physical condition of the country and in the mental and moral condition of the inhabitants.

The distinction between public and private costs of production is much the same as that drawn by Professor Marshall (pp. 418, 419) between *real cost of production* on the one side, and on the other side *money cost of production* or *expenses of production*. The different heads of private cost of production he would call factors of production; and the price adequate to defray all these costs, including those of bringing the goods to market (trading expenses), he calls the *supply price*. Dr. Smart (*Studies in Economics*, p. 163) expresses the distinction of public and private by the phrases cost to man and manufacturing cost. But the terms we have used in the text, and which are almost identical with Professor Hadley's cost in its public sense and cost in its private sense, appear to express the necessary distinctions with greater clearness and emphasis.

Now of these two kinds of cost, the one which is of primary importance for market prices is not public but private cost. If manufacturers give more wages for the same work and more interest for the same loans, the private cost of what they produce is increased, and *ceteris paribus* they cannot afford to sell so cheaply as before; but there is no corresponding increase of the public cost. And if they give less wages and less interest, their private costs are lessened and they can afford to sell cheaper;

but there is no corresponding diminution of the public cost.

Thus goods may be sold very cheap as being produced by the labour of driven slaves, and by the private costs of production under the head of wages being in consequence very low; but the national cost of those goods is presumably very high because of the miserable toil in their production. Again, goods may be sold very cheap in a market because the dealers may have made one-sided bargains with the poor country people who are the principal producers: in such case the dealers' private costs of production are very low, but not the national cost. Sometimes indeed both are low, as the market price of goods chiefly made in spare time at the leisure and convenience of peasants; for the toil and trouble of such production is very small. In all these cases, observe, there is nothing anomalous, and it is a mistake to treat them like Mill as *anomalous cases of value*. The value and price of such goods can be as much and as little reduced to a law or formula as any other value or price.

Nevertheless, the public and private cost of production though distinct are closely connected, and there can hardly be any serious alteration in the one without the other being affected. Thus, if the wages of factory workers in the cotton trade are at a reasonable level, a great reduction or a great rise of wages is not simply a shifting of the private costs of production; for the public costs will certainly be greater in the first case and probably in the second.

The student should notice that Mill is confused on the two kinds of cost, and that Cairnes inconveniently treats cost as simply equivalent to public cost.

§ 8. **Private Utility.**—Having looked at the first of the two indirect causes of market price, namely, private costs of production, let us now look at the second, namely, private utility. For as on the one side the offerers, sellers, or those who bring or send to market, are influenced, as we have just seen, by their estimate of their particular costs of production; so also on the other hand, the demanders, buyers, or those who carry away from market, are influenced by their estimate of the utility of the goods for their

own particular purposes. Just as the sellers make a valuation of cost, the buyers make a valuation of utility.

Now the utility of goods is either for production or for enjoyment. In both cases the calculation is almost as complicated as that on the costs. For in the first case the productive power of the article in the hands of the purchaser varies with every individual according to his capacities and his opportunities. Of two purchasers, for example, in the market for lean cattle, one having a better farm for fattening cattle and greater knowledge of the process has an advantage of ten per cent. over the other, and thus *ceteris paribus* can pay ten per cent. more.

In the second case, that is, when the purchase is for the sake of enjoyment, the calculation of utility is still more difficult; for many circumstances affect the estimate of every object of enjoyment by every individual. The only measure of such an estimate is in the price a man is willing to pay on the supposition that he cannot procure the article or a substitute for it elsewhere. His estimate, and therefore the price, will in general be higher: (1) the more pressing the character of the want which the good relieves, like staple food or like fuel in a cold country: if he wait for a fall in price he will starve or freeze in the interval; (2) the greater number of his wants that the good satisfies, a cottage for example more than a carpet; (3) the fewer of the same or similar goods he has already, of chairs and tables for example; (4) the larger

his total capacity to pay, that is, the larger his power of purchasing; thus a velvet gown, a diamond necklace, or a country seat, are of little or no value to a workman's family.

This does not mean that the velvet gown loses its utility when worn by the wife of an artisan, and will not give her the same protection against cold which it gives to a duchess: what is lacking in the gown is not the capacity to fulfil the purpose of velvet, but the capacity to be estimated by artisans' wives as desirable. They would come to the workhouse if they bought velvet gowns, and the game is not worth the candle; while diamond necklaces and country seats they cannot demand at all, however much they may long for them, and however ready they may be to commit financial suicide. In such cases it may be convenient to say that for such people the article has no actual, only potential value, and that they have no *actual* or *effective demand* for it, but only *potential* or *latent*.

§ 9. **The Order of Wants.**—The importance of a proper order of wants, of attending to necessaries and decencies before superfluities, has already been made sufficiently plain in the chapters on the theory and particulars of consumption. But whether the order is a proper one or an improper one, it must exist, and may be called *the actual order of wants*, or the subordination of wants, or some such name. It exists apart from society, and Crusoe carried from the wreck in an order of preference the goods he wanted. In society, this order has its effect on prices by raising estimates of articles according to the four points just now given. Thus some things a man must have, as we say, at any price; others he will not buy unless they are cheap. Hence a serious rise of price in several articles he has been accustomed to buy, may raise them out of his reach and make his demand for them no

longer effective, but only latent; or the rise of their price may act in another way and put other articles out of his reach, if those first articles have a prior place in the order of his wants, and the extra payment for them leaves him no longer capable of paying for the second. Further, because of the limitation of utility or law of satiable wants (discussed Bk. I. ch. vi.), the quantity desired of any particular good is generally limited, and the later portions less valued than the earlier. In all such cases the price which the purchaser pays, say 2s. for a pound of tea, only expresses the value to him of the pound which lies at the margin, terminus, or end of his purchases; and by no means the value of all the pounds he has bought. The total price does not express the total value of all the tea to him, but only the value of the last portion or marginal value. He would probably pay a higher price, say 3s. a pound, rather than be stinted in tea, and a much higher price, say 5s., rather than have none at all.

Professor Marshall uses the term *demand schedule* to express the list of the different prices a purchaser would be willing to pay for different quantities of the same article. Such demand schedule is from the nature of the case hypothetical and unascertainable. It is not to be confused with the equally unascertainable and much more complicated schedule that would tell us the different prices a purchaser would be willing to pay for different quantities of all sorts of articles.

§ 10. **Benefit of Markets: Elimination of the Unfit.**—In a market, the transition is effected from individual to social value: the various individual values depending on the various individual circumstances we have been considering affecting private cost and private utility, are brought together and

compared; the result being that for that time and place one social value is arrived at, and is expressed by one market price. The agency is *free* competition as already described, and a further and beneficial result follows, that a stimulus is given to the division of labour, especially to the utilisation of different qualities and capacities, and also to inventions and improvements. For the one market price, alike for all, plainly gives a premium to the sellers who can provide the goods at the least private cost, and to buyers to whom the goods have the greatest private utility; and thus a maximum net gain to society is the presumable result.

A few diagrams (suggested by the old but not antiquated discussion on value by Schäffle) will perhaps make this plainer. Take for shortness a market of only seven groups of competing sellers (or offerers), A to G, and seven groups of competing buyers (or demanders), H to O, and for simplicity let each group be composed of the same number of persons, and as the case may be, offer or demand the same quantity, say ten bales of the same merchandise, say cloth. Suppose also that the (individual) value of each bale to each seller, in view of the costs he has incurred, be the money figure given in the following table; and similarly the (individual) value of each bale to each buyer, in view of the utility anticipated, be the money figure given in the following table. Then a glance at that table will show us how many bales of cloth can be sold according as the price is higher or lower:

Table i.

Groups of sellers . . .	A	B	C	D	E	F	G
Value to each seller in dollars	1	2	3	4	5	6	7
Groups of buyers . . .	H	J	K	L	M	N	O
Value to each buyer in dollars	9	8	7	6	5	4	3

Various amounts sold according to price.

Price in dollars.		Amount sold.
½	None can sell; H to O can buy.	0
1	A can sell; H to O can buy	10
2	A and B can sell; H to O can buy	20
3	A, B and C can sell; H to O can buy	30
4	A to D can sell; H to N can buy	40
5	A to E can sell; H to M can buy	50
6	A to F can sell; H to L can buy	40
7	A to G can sell; H, J and K can buy	30
8	A to G can sell; H and J can buy	20
9	A to G can sell; H can buy	10
9½	A to G can sell; none can buy	0

Now in this case the market price of a bale of cloth must be five dollars; no other price is possible in open market, and no other price will give so great a sum of advantage to both producers and consumers; for those are eliminated to whom the goods occasion the most cost and to whom they are of the least utility, namely, F and G on the one side and N and O on the other; and thus markets are a means whereby exchanges are made precisely between those who can exchange with the greatest mutual advantage, while the inefficient on either side are excluded. In this case the seller E and the buyer M are what are called in the terminology of the Austrian economists *the marginal pair* (*Grenzpaar* or *couple limite*).

If we cut off the weaker traders on either side there is greater room for fluctuation. Let only the four stronger groups on each side remain in the market:

Table ii.

Groups of sellers	A	B	C	D
Value to each seller in dollars	1	2	3	4
Groups of buyers	H	J	K	L
Value to each buyer in dollars	9	8	7	6

In this case all the traders can deal, D and L are the marginal pair, and the whole supply can be sold whether the price be 4, 5, or 6 dollars, though probably the stiffer resistance of D and the slacker demand of L will cause the price to settle down at 5 dollars. The space between these

various possible prices (4 to 6 dollars) is called by Dr. Smart (*Introduction to Theory of Value*, p. 62) the zone lying between the valuations of the marginal pair; and by Dr. Macfarlane (*Value and Distribution*, p. 247) the space limited by marginal utility on one side and by marginal disutility on the other.

If the demand is weaker the price will be less; if, for example, we cut off the two best placed buyers and leave the sellers as before:

Table iii.

Groups of sellers . . .	A	B	C	D	E	F	G
Value to each seller in dollars	1	2	3	4	5	6	7
Groups of buyers . . .			K	L	M	N	O
Value to each buyer in dollars			7	6	5	4	3

In this case at the old price of 5 dollars only thirty bales can be sold, whereas at 4 dollars as many as forty. The price will remain at 4 dollars, as a further fall would reduce the amount sold to thirty bales. Thus D and N are the marginal pair.

If the supply is weaker, the price will be more; if, for example, we cut off the two best placed sellers and leave the buyers as before:

Table iv.

Groups of sellers . . .			C	D	E	F	G
Value to each seller in dollars			3	4	5	6	7
Groups of buyers . . .	H	J	K	L	M	N	O
Value to each buyer in dollars	9	8	7	6	5	4	3

In this case at the old price of 5 dollars only thirty bales can be sold, whereas at 6 dollars as many as forty; and at 6 dollars the price will remain, as a further rise would reduce the amount sold to thirty bales. The marginal pair are F and L.

§ 11. **Scarce Goods and Scarcity Market Price.**—Let one more table be added to illustrate the case of a commodity being scarce. *Scarce goods* are those of which the supply for all practical purposes cannot be increased. If such goods are single objects or very few in number, it is plain that they cannot be sold at market prices; for a market implies a number of competing sellers. Where, however, the goods are numerous enough to be in the hands of such sellers, say of the groups C and D above (each group be it remembered containing a number of competing sellers), in such case there will be a genuine market price for the goods, to which we can give the name of a *scarcity market price*, and the amount of which we can see at a glance from the following table:

Table v.

Groups of sellers . . .			C	D			
Value to each seller in dollars			3	4			
Groups of buyers . . .	H	J	K	L	M	N	O
Value to each buyer in dollars	9	8	7	6	5	4	3

In this case, let us suppose the goods to be measures of rare wine instead of bales of cloth. Here the buyers are in the same position as in Table i.; but the goods cannot be kept down to the old price of five dollars, because at that price the demand is for 50 measures, while the whole possible supply is limited to 20. The price will rise

to eight dollars, but cannot rise higher, because the demand would only then be for 10 measures.

Many other tables might be given and made much more complicated; but this would defeat their purpose of making things clearer to the student. In reality there are no uniform groups like those supposed in the foregoing tables, but many gradations in the private costs and private utility according to the circumstances of each individual; and there is no uniform offer of a certain quantity and demand for a certain quantity, but many variations according to the price.

Hence, although it is quite possible to construct demand curves and supply curves, and to make their intersection determine the market price, it is dubious whether such method of teaching is profitable, because of the risk of creating an impression of greater simplicity, clearness, and exactness than is justified by the facts.

In some markets, like the Berlin Stock Exchange, the equalisation of supply and demand (as Professor Hadley tells us, *Economics*, p. 82), "instead of being left to individual intelligence in competition, is performed by a committee, which, after revising all the bids and offerings for the day, at their various prices, establishes a settling price which will secure the maximum number of transactions; a price, that is to say, which leaves the smallest difference between the amounts wanted by buyers and offered by sellers."

§ 12. **Caution on the Benefits of Markets.**— We have now seen how by the working of the market and by the great differential gains which it allows successful producers to secure, a premium is given to wise production and a penalty to incompetence, and the national industries are likely to be directed into the most profitable channels. But then remember two points: First, that because competition within a market is in its right place,

and suitable, this is not a reason for its being suitable elsewhere; for then a bull because useful in a farm would be useful in a china shop. Secondly, that even the operations of the market may be an effect of mischief and wrong. Thus in our tables above the commodity might have been not cloth but sugar, and the reason why it cost so little to A and B was that they were slave-owners or the agents of slave-owners whose private costs of production were low because they gave a minimum of subsistence to their slaves. Or the commodity might have been butter, and the reason why H and J could give such a high price, was that they were in alliance with dealers who supplied a poor and helpless population in a great city, and by the contrivances of adulteration, of false weights, and of getting their customers into their debt, were able to make extortionate charges. Only observe in such cases the market is not the cause, but the effect or the expression of the evil: and the remedy is not to close the market, but to free the slaves, to punish the extortioners, and to organise the helpless.

Again the commodity might have been some costly luxury, and the reason why H and J could give such a high price was that their riches were overgrown, and the mass of the nation was in penury and rags. (This is emphasised by Wieser, *Natural Value*, p. 46.) Or finally the commodity might have been the staple food of the country, and H and J have been richer countries drawing away the food stuffs from the famine-stricken regions, and leaving the miserable groups represented by N and O to perish. (This has been explained in Bk. I. ch. vii. §§ 3, 4.) But again, the remedy is not to close the markets, but to strive for a better distribution of property in the one case, and in the other to strive for a reasonable system (as explained above) of famine prevention.

§ 13. **Fluctuations in Market Prices.**—From the nature and complexity of the causes influencing market prices it is not surprising that they are liable to frequent variations. The various changes in the arts of production, the alternations of good and bad harvests of all kinds of crops, the discovery or the exhaustion of mines, affect private cost of production and therefore the supply: while each change in the fashion of dress, of houses, furniture, food, and changes in military requirements affect private utility, and therefore the demand.

In general it can be laid down that fluctuations in prices will be greater:

(*a*) The more necessary the goods are to life. So the price of staple foods, notably corn, is liable to violent fluctuations, like the price of wheat, which in 1782 was double the price of the previous year, and in 1836 was half what it had been in 1831.

(*b*) The more insignificant the goods are in the total expenses of the purchasers. If nutmegs are trebled in price a rich family buys as many as before, and would buy no more if they grew three times cheaper. Thus extremes meet; for the very important goods and the very unimportant are alike in this that the demand for them is not *elastic*, that is, does not expand or contract very much according to variations in the price. Readers may be referred for details and illustrations on elasticity of demand in a market to Professor Marshall's *Principles of Economics*, Bk. III. ch. iv.

(*c*) The more perishable the goods are. "Thus, in fish markets, the price of a fish might have been a shilling when the market opened at five o'clock in the morning, eightpence at ten o'clock, sixpence by noon, while at three or four o'clock in the afternoon one could have it on his own terms. In the same way, strawberries are often sold on Saturday night at one half or one third the price of the morning." (Walker.)

(*d*) The more expensive the goods are to keep, like bulky furniture requiring storage-room, or a dwelling-house requiring a caretaker, or a riding horse requiring provender.

(*e*) The more untransportable the goods are, as mangel or turnips of which the good crop in one place will not make up for the bad in another.

(*f*) The more uncertain the number of customers for the goods. Thus there are great fluctuations in the price of British iron because the proportion of fixed and regular customers is so small.

(*g*) The more the production of the goods is liable to misadventure; so hops and fruit more than corn or roots, and agricultural more than manufactured produce.

(*h*) The more fixed and specialised the capital used in the production of the goods, and thus the less able at a small alteration in the price to be turned to some other purpose.

(*i*) The longer time that must elapse before there can be any serious increase in the supply of the goods. This is a case in which, to use Professor Nicholson's term (*Political Economy*, Vol. II. p. 34), the *elasticity of supply* is small, that is to say, the supply does not change rapidly according to variations in the price.

(*k*) The less the possibility of using any substitute for the goods.

§ 14. **Evil of Fluctuations in Prices; and whether increasing.**—The great evil of fluctuations in prices is that on the side of the producers the love of steady and sober gains is discouraged, and speculation and gambling is encouraged; while on the side of the consumers orderly housekeeping is rendered difficult, great hardship comes from miscalculation of expenses, and among the poor especially the excessive dearness of some important article of their consumption one year is ill compensated by its excessive cheapness the next year. So among both producers and consumers there is an absolute loss, and much misdirected production and misdirected consumption.

Whether prices are steadier than they used to be is dubious. On the one hand the great extension and improvement of the means of communication have marvellously steadied the price of corn in all rich and commercial countries, and lightened the terrible anxiety about the seasons which weighed on our forefathers. But then, in the poorer and uncommercial countries which are drawn into the commerce of the world, and export

raw produce to the rich countries, prices seem liable to greater fluctuations than before. And even in the rich countries with elaborate machine production the prices of many kinds of goods are liable to greater fluctuations than formerly because of the spread of speculative purchasing, and also because of the great increase of misdirected production (described Bk. I. ch. iii.), so that too much of one thing is brought to market and too little of another, with very low or very high prices as the consequence. Interesting arguments and diagrams relating to fluctuations of prices are given by Mr. Hobson's *Evolution of Modern Capitalism*, pp. 175—182. But let it be quite understood that the remedy for disastrous fluctuations is not to be found in an increase of consumption, nor again in the reversion to simpler and old-world methods of production; but much rather in the bridling of nefarious speculations and nefarious combinations; and in a humane and reasonable rule of poor and undeveloped countries, protecting them against the likely ill effects of their premature contact with highly developed countries.

§ 15. **Average Market Prices.**—The *temporary fluctuations* of price which we have just been considering must be distinguished from *permanent alterations* of price, that is, alterations in the average market price of any goods. How long a period ought to be taken for striking an average, must vary with different kinds of goods: for corn some twenty or thirty years at least; for manufactured goods much less. The length of the period must also vary according to the purpose we have in view when we are making our observations. Thus if we are comparing the purchasing power of the money wages of a Scotch day labourer at the time when Adam Smith published the *Wealth of Nations* and at the present time, we ought to strike the average price of the main articles used by such a day labourer from the prices of the five or six years preceding the two dates. But a much longer period is required if

we are trying to ascertain the effect of a great discovery of gold on prices in general, or the effect of some new technical process on the price of some particular article, like Bessemer's process on the price of steel.

Where neither demand nor supply are elastic (*supra*, § 13) a long period is needed for the gradual withdrawal of fixed capital and acquired capacities from business which appears less profitable, or the gradual application of them to business which appears more profitable.

In general between temporary fluctuations and permanent alterations there is no hard and fast line, and "permanent" is not to be understood as rigid and unchanging, but only as changing more slowly. Temporary market prices shade into short-period market prices, and these into long-period, and long-period into secular, indicating permanence or change from one generation to another. (Cf. Marshall, p. 451. The case is an illustration of what he calls continuity. See Prologue, § 19.) Observe that all alterations in average market prices can be reduced to two heads, those due to alterations in the value of money, and those not so due. The first can be called *nominal alterations*, and result in average prices in money being all higher, or all lower; the second can be called *real alterations*, and result in the average prices in money of some goods being higher, and of other goods lower, according to permanent changes in private costs of production, or permanent changes in private utility or in both. For further explanation we must wait till we reach the discussions on money, only observing here that the difference of nominal and real alterations of average market prices must be made quite clear if any history of prices is to be made intelligible.

§ 16. **Theory of Normal Value.**—Not content with the general proposition and observed phenomenon that every alteration in actual market prices sets counteracting forces at work, such as using more or less of the article, or producing more or less, or substituting other commodities or processes, the classical economists have gone further, and have imagined a stable price to which instable market prices are ever tending, and which has been called by Mill and his predecessors *natural value*, and by the modern exponents of the theory *normal value*. The mere word indeed "normal," in the sense adopted in the Prologue and taken from Marshall, can be applied both to actual and average market prices, since both of them are the results of actions which may be expected

from members of an industrial group. The prices would only be *abnormal* if resulting from some *unexpected* course of action. But the word normal is used in quite another sense in the theory we are considering, Marshall himself expressly altering its meaning (as noticed in the Prologue). By natural or normal value is meant the price that under certain assumed conditions, and allowing sufficient time, would be reached, and to which market prices tend to conform. Thus not only actual market prices are contrasted with normal, but also average market prices; for even long-period market prices are not held to be the same as normal, because liable to "disturbing causes," *i.e.*, because the average may be affected by causes other than those assumed.

Now as Professor Marshall is the most moderate exponent of the theory, let us hear from him what are the conditions assumed for normal value.

"We assume that the forces of demand and supply have free play; that there is no combination among dealers on either side, but each acts for himself, and there is *free competition;* that is, buyers compete freely with buyers, and sellers compete freely with sellers. But although every one acts for himself, his knowledge of what others are doing is supposed to be generally sufficient to prevent him from taking a lower or paying a higher price than others are doing. This is assumed provisionally to be true both of finished goods and of their factors of production, of the hire of labour and of the borrowing of capital." (*Principles of Economics*, p. 421.)

Previously (p. 420) he calls *the principle of substitution*, that producers will substitute less expensive for more expensive methods, and that "society substitutes one undertaker for another who is less efficient in proportion to his charges." And later, mentioning the doctrine of Adam Smith and others, that the normal or "natural" value of a commodity is that which economic forces tend to bring about *in the long run*, he says the real drift of the doctrine is, "The average value which economic forces would bring about if the general conditions of life were stationary for a run of time long enough to enable them all to work out their full effect." (p. 427.)

§ 17. **Criticism of the Theory of Normal Value.**—The theory seems to suffer from the following logical failings. First, instead of accounting for observed facts, it is in contradiction with them. The world in general, and the most commercial parts of it in particular, are filled with non-competing groups, monopolies, and combinations; these mostly not decaying survivals, but a vigorous modern growth; while the growing difficulty of ascertaining costs,

owing to their variations, uncertainty, and obscurity, is a constant hindrance and frequent block to the "principle of substitution." The proof of these assertions will be given in the next chapter and in the chapters on Profits and Wages in Book III.

Secondly, the theory involves a contradiction. It requires the eager striving after maximum gain by applying the principle of substitution, and requires the absence of external checks to individual effort; and yet simultaneously a stationary state of the conditions of life to allow the forces to work out undisturbed. In other words, it combines the actual world of restless change and complex industry with fixed and simple conditions, requiring society to be simultaneously fluid and crystallised. As a fact, the industrial world is growing more and more complex; and thus instead of time rectifying temporary disturbances and allowing the assumed forces to work out their effects, the longer the run the more hopeless the rectification. (See J. S. Mackenzie, *Social Philosophy*, 2nd Edit. pp. 104, 105.)

Thirdly (as the Duke of Argyll well explains in his *Unseen Foundations of Society*, pp. 3—5) the theory rests on a **false analogy.** We are often able in physical science to treat variables provisionally as constants, to adopt a working hypothesis that can receive subsequently the proper modifications, and to allow for friction when we pass from pure science to applied. We simplify provisionally for our own purposes of learning and teaching the better to grasp the actual complexity; and this we can do, because the disturbing and varying causes are of the same character as the main and constant causes; and in a certain sense and for the purposes of investigation, all is constant: the properties of matter, the formation of rocks, the movement of tides, the growth of plants, the structure of beasts. But to apply this method to economics is the false analogy of arguing from the physical to the moral sciences, and of assimilating men to cockchafers, forgetting M. Gide's saying: "Qui a vu un seul hanneton les a tous vus: mais qui a vu un seul ouvrier mineur n'a rien vu." (*Principes d'Econ. Pol.* 4th Edit. p. 17.) And long ago, in 1860, Ruskin urged that "the disturbing elements in the social problem are not of the same nature as the constant ones: they alter the essence of the creature under examination the moment they are added, . . . introducing conditions which render all our previous knowledge unavailable." (*Unto this Last*, Essay I.) Even Mill, in his criticism of Hobbes and Bentham, well wrote as follows: "The phenomena of society do not depend, in essentials, on some one agency or law of human nature, with only inconsiderable

modifications from others. The whole of the qualities of human nature influence those phenomena, and there is not one . . . the removal or any great alteration of which would not materially affect the whole aspect of society, and change more or less the sequence of social phenomena generally.' (*Logic*, Bk. VI. ch. viii.) This reasoning is excellent, but fatal to Mill's own Political Economy. Thus to assume that men will compete recklessly with each other, and having worked out the conclusion, then to make allowance for combination; or to assume they will seek only their pecuniary interest, and then to make allowance for religion, and patriotism, and the sense of justice, and the influence of Government, is to confound commensurable physical causes with incommensurable moral causes; and it would be no whit more illusory were we to work out a theory of man as a fighting animal, and then make allowance for love of money and feelings of benevolence. Hence Marshall's answer (*Principles*, p. 452) to the present writer seems to miss the mark, and his praise of the "paramount device" of isolation for special study (p. 451), and of segregating "those disturbing causes whose wanderings happen to be inconvenient for the time in a pound called *Cæteris Paribus*" (p. 438), seems only justifiable were men but as the beasts that perish.

Finally, as Ruskin pointed out (l.c.) with inimitable humour, the theory is fruitless, wasting time to no purpose; like a science of gymnastics which assumed for simplicity's sake that men had no skeletons. Thus Marshall's theory of price, in many ways so instructive, is complicated and confused by the introduction of the theoretical prices which he calls "true normal equilibria" (p. 450). And to make a proposition (p. 427) which no sooner made has to be whittled away through many chapters of interpretations and limitations, instead of giving at once a presentation of the real facts of the case, is like ploughing the sands.

The theory of exchange-value given by Mill is based on an imaginary system of production carried on by "capitalists" for profit, and in which the realities of life often appear "anomalous," as unable to be reduced to any assignable law. (*Polit. Econ.* III. i. 5; vi. 2, 3.) Obviously he falls under the condemnation of the theory of normal value; and though he appears to have a great advantage over Marshall in clearness and simplicity, this is because he does not attempt to modify his abstractions so as to adapt them for the complications of concrete facts. Whereas Marshall surrenders the position. Thus in the statement (cited in the preceding section) on the "real drift" of the theory of "the long run," he applies it to all economic forces. But monopolies, combinations, and one-

sided competition are as much economic forces as two-sided competition, and thus after the longest run of time, and however stationary the general conditions of life, the forces would be no nearer producing a common effect and generating natural value, than at the start.

§ 18. **Summary on Value and Market Prices.** —Perhaps the best plan for keeping our minds clear on these difficult subjects is to take an incorrect proposition, and gradually convert it into a correct proposition. Let the proposition be: "value is determined by cost." First, as by value is here meant exchange-value, and as exchange-value is much better expressed by the word price, let us substitute price for value. And as the proposition is obviously inapplicable to non-market prices, namely, to those where there is either one-sided competition or none at all, let us insert the word market before price. The proposition, therefore, as amended, runs: "market price is determined by cost." But then cost is not uniform, and is an empty abstraction apart from the multitudes of different and varying private costs. We must therefore alter cost into marginal costs or the costs of the marginal seller, namely, the actual seller whose costs are (or seem) the highest. Our proposition is now that "market price is determined by the costs of the marginal seller." But even so, it will not stand. For precisely the fact that the price is high enough to defray these costs is partly due to the buyer's estimate of utility; and thus the utility to the marginal buyer, namely, the actual buyer to whom the utility of the article is (or seems) the least, determines the price just as much as the costs

of the seller. "The cost of production at the margin cannot be the sole and ultimate regulator of price; because the margin itself is determined by the general relations of demand and supply.' (Marshall, in *Economic Journal*, March, 1893, p. 83.) In fact, cost of production and utility can be compared to the two blades of a scissors, or to the masonry pressing on each side the keystone of an arch, or to balls lying in a bowl mutually determining one another. (Marshall, *Principles of Economics*, pp. 428, 597.) Finally, we must add a word to give some indication of the time we are considering, so as to exclude temporary fluctuations, selling at a loss and buying on an emergency; and thus we must insert the word average before market prices. Hence the proposition as finally amended and converted runs as follows: average market prices are jointly determined by the private costs to the marginal buyer and the private utility to the marginal seller.

Obviously, exactly the same treatment would be required, *mutatis mutandis*, to amend the corresponding incorrect proposition that "value is determined by utility."

In conclusion, the following brief statements, as the result of this chapter, may be usefully kept in the memory:—(*a*) That the only measure of value is price. (*b*) That if we seek precision, we should speak of prices, not of values. (*c*) That market prices are those which result from the action of free, as distinct from one-sided, competition. (*d*) That market prices depend directly on demand and

supply. (*e*) That market prices indirectly depend, not solely on private costs of production, nor solely on private utility, but on both. (*f*) That among the varying figures of market prices we can strike an average, as among any other varying figures. (*g*) That beyond such average market prices, which can rightly be called normal, there is no use in seeking after other prices to be called normal or natural, these being mere creatures of the imagination.

CHAPTER III.

NON-MARKET PRICES.

§ 1. **Distinction of Non-Market from Market Prices.**—A market, as defined in the last chapter, implies a number of buyers and a number of sellers, and a certain equality of technical knowledge and capacity on either side. And then, from the nature of the case, the market price that results will be a fair price.

But an immense number of sales are not made in a market at all; and the prices in all such cases are *non-market prices*.

The distinction between market and non-market prices is not the same as that between *wholesale* and *retail* prices. For though practically they often come to the same thing, it is not always so. Thus wholesale transactions are frequently not between two sets of competitors, but between a set of competitors on one side and a monopolist on the other. And many retail markets are genuine markets, where the buyers have the technical knowledge needful for a market price to be properly formed.

Observe that in proportion as a market, whether wholesale or retail, becomes badly organised, and one person is liable to hold a great portion of the supply, or to be by far the greater demander, the case becomes assimilated to those

we are now coming to, and the title of market becomes a misnomer. No very sharp line indeed can be drawn between what is and what is not a market; but quite sufficient a distinction for the purposes both of science and legislation. Nicholson, *Polit. Econ.* II. p. 40, gives examples of undeveloped or disorganised markets. "In the bazaars of the East, bargains are at the same time effected at very different prices, and in sheep and cattle fairs the actual sales often vary considerably from the average. Even on the Stock Exchange, in the more speculative securities there are rapid movements which are mainly due to the fact that knowledge of various kinds is not equally disseminated. In times of commercial crisis and panic, widely different prices prevail at the same time, and at short intervals there are still wider differences."

Now in all these cases where there is no proper market, competition either does or does not prevail. Let us take first the case where it does prevail, namely, *competitive non-market prices;* the competition being from the very nature of such cases not free competition, but one-sided.

§ 2. **Monopoly and Monopoly Price.**—If the whole stock of any particular commodity or a great part of it is in the hands of only one seller or combination of sellers, or if the whole or a great part is demanded by only one buyer or combination of buyers, this fact is called a *monopoly*. And if in such case there is much competition, that is, if a number of competing buyers face one seller, or a number of competing sellers face one buyer, the price thus settled is called a *monopoly price*.

Though monopoly, as the word itself may remind us, is generally on the side of sellers, it is not unknown on the side of buyers. A common case is the sale of fish by poor fishermen who face a single trader or combination of traders and have to surrender their produce for very little.

Beware of confusing monopoly and scarcity. There may

be a scarcity market price as we have seen in the last chapter, but a monopoly market price is a contradiction in terms. No doubt often the fact of a scarcity creates a practical monopoly, as of some vineyards. But the price is only a monopoly price if it is raised above what would be the scarcity market price. Beware also of drawing a contrast between competition and monopoly, when in fact the very nature of monopoly implies competition, namely, the one-sided sort. Some writers, indeed, like Mill, use competition to mean only two-sided (or free) competition. But even then, Mill's proposition: "Where competition is not, monopoly is," cannot hold good. For custom. or again positive law, or a private bargain between two individuals may settle prices; and these cases cannot reasonably be called monopoly. So again, it is misleading to say that all prices are either competitive or customary. This rough division may be of use for some rude societies (as village communities); but in general is liable to make us forget the profound distinction between customary and positive law, and again between one-sided and two-sided competition.

Now a monopoly price is presumably a higher price than if there had been a market, in other words, if free competition had prevailed instead of one-sided competition. Let us illustrate this by a table, taking exactly the same conditions as in the first table of those already given (*supra*, p. 229), with this difference that all the sellers are combined into a great trust or syndicate, or have all been bought up by one great enterpriser.

Table vi.

Syndicated businesses .	A	B	C	D	E	F	G
Value to each in dollars .	1	2	3	4	5	6	7
Groups of competing buyers	H	J	K	L	M	N	O
Value to each buyer in dollars	9	8	7	6	5	4	3

Various gains of the monopolist according to the amount sold.

Number of bales sold.	Price to effect the sale.	Total costs in dollars.	Total receipts in dollars.	Net gain in dollars
60	4 dollars.	210	240	30
50	5 „	150	250	100
40	6 „	100	240	140
30	7 „	60	210	150
20	8 „	30	160	130
10	9 „	10	90	80

In this case, unlike that of two-sided competition, when 50 bales were sold at a market price of five dollars each, only thirty bales are sold at a monopoly price of seven dollars. The monopolist closes, not only the works that were carried on by groups F and G, which would have closed of themselves; but also the works that were carried on by groups D and E in the old days of an open market, and keeps open only the works that were carried on by groups A, B, and C, making by the high price a profit of 60 dollars on the first of these, 50 on the second, and 40 on the third.

This is the root offence of monopolists, that by

lessening the supply they gain their own private advantage to the public loss. Thus spices were destroyed by the Dutch in the East Indies; thus, in olden times, corn was withheld or even destroyed to produce or aggravate a scarcity; thus, in our own time, milk has been bought up and spilled in the State of New York, fish forbidden to be landed on the Cornish coast, tons of Kentish fruit left to rot on the ground; for only by limiting the offer is it possible to maintain monopoly prices. Such practices and others like them are forms of the evil of *withholding national resources*, other forms of which, notably clearances of estates, have already been sufficiently explained. (Bk. I. ch. ix. §§ 15, 16.)

The power of the monopolist to raise prices is well discussed by Mr. Hobson, *Evolution of Modern Capitalism*, ch. vi. It varies much with the nature of the article monopolised and of the demand, being greatest where the monopolist controls necessaries (whether absolute or conventional necessaries), where the demand is not elastic (namely, not varying much with each rise or fall of price), and where the use of substitutes is difficult or impossible. Thus, in England, boots being now a conventional necessary and no substitute possible, if the trade fell into the hands of monopolists, a great increase of price would be possible with little diminution in the consumption.

Where the demand is elastic, it is quite possible that the maximum gain to the monopolist might be alike at several prices, and a larger quantity sold at a lower price might give exactly the same net return as a smaller quantity sold at a higher price.

§ 3. **Practical Danger of Monopolies.**—In the middle ages there was constant danger of unscrupulous speculators "forestalling" the supply before it reached the market, or "engrossing" it by buying up the greater part, and then "regrating" it, that is,

selling it again at an exorbitant price. Great efforts were needed on the part of both State and Church to protect the freedom of the market against monopolies and combinations, and to enable a proper market price to be reached. In modern times, two great changes have again brought with them the necessity of a vigorous intervention of public authority, first the growth of large-scale industry, and the corresponding growth of joint-stock companies; secondly, and more recently, the growth of combinations among manufacturers and merchants, all tending to substitute monopoly prices for market prices.

The most conspicuous example is the railway monopoly in place of the old public highways and competitive carriers. Everywhere, indeed, the State, having itself authorised these immense monopolies, interposes with some sort of regulation. But often the interposition has been insufficient or tardy; monopoly prices have been charged, the industry of whole regions strangled (as in Ireland); or dangerous power, greater than that of the lawless barons of old Germany, accumulated in private hands. The monopolies in the supply of towns with water, or gas, or electricity, or tramways, taken in the aggregate, withdraw a vast body of prices from the operation of free competition, and require public control or regulation to prevent monopoly prices. Sometimes, with no need for any private Act of Parliament or Government Concession, the immense capital required for some particular business renders monopoly a likelihood. Thus for a single properly-equipped cargo-boat no less than £30,000 is now required.

Over and above this great development of quasi-public monopolies has come the newer growth of combinations, and together have made non-market prices perhaps even more important than market prices. Temporary combinations for raising or lowering prices, such as the famous Leiter "corner" in wheat in 1898, or similar conspiracies to alter the price of goods (such as coffee, cotton, copper, maize, or lard), and the allied and novel practice of "dealing in futures" on produce exchanges, will be more intelligible after we have examined

credit and the stock exchanges. Here let us only notice the more permanent combinations which unite all producers or sellers in certain districts or for certain markets, and having made an end of free competition, fix a price judged most advantageous for the members. Such combinations are not indeed new, and appear frequently in history, for example, the combination of the coal-owners of Durham and Northumberland lasting from 1771 for some 70 years till broken up by the introduction of railways. The novelty is in their frequency, first attracting attention about 1887 in the United States. They were called **Trusts**, from the legal form they first adopted, and the name has continued though the form has changed. In spite of laws by the States and the Congress directed against them, they have almost continuously advanced, sometimes as in 1899, by leaps and bounds, till a great, perhaps the greater part of American goods have their price fixed by these monopolies; and to bridle them has become one of the first concerns of American politics.

In the old world on a smaller scale a similar process is to be seen, especially in the two great commercial countries Germany and England. Amalgamation and absorption of businesses are rapidly proceeding in England; banking, insurance, and the grain trade are conducted by only a few separate undertakings; the soap-makers of London are united, and meet periodically to fix the prices at which retail dealers shall sell soap; and not to mention other instances, a combination of various Birmingham trades for a period of years successfully fixed prices and ended competition; while the South African and East Indian steamship companies have successfully combined to secure a monopoly of trade. See Mr. Macrosty in the *Contemporary Review*, March, 1899, on the growth of monopoly; Professor Ashley in the *Economic Journal*, June, 1899, on American Trusts, and Mr. E. J. Smith's small volume on the *New Trades' Combination Movement*, 1899; also, A. T. Hadley, *Economics*, 1896, ch. vi.; J. A. Hobson, *Evolution of Modern Capitalism*, 1894, chs. v., vi.; S. Webb, *Industrial Democracy*, 1897, pp. 577, seq. 680, seq. (APPENDIX H.)

§ 4. **Adam Smith on Forestalling and Engrossing.**—Had Adam Smith witnessed the effect of "engrossing" on the price of wheat in Chicago and New York, or if again he had had any real knowledge of the circumstances of the middle ages, he would not have made his celebrated comparison of the fear of engrossing and forestalling to the fear of witchcraft (Bk. IV. ch. v.—Digression on the Corn Laws). What he knew well were the circumstances of Great Britain in his own time, which were very unfavourable to combinations; and this, joined to his general theory of man's natural

shrewdness and capacity, and the fitness of *laissez-faire*, led him to adopt a doctrine which (as we have seen when treating of famines) was to produce in the following century such evil fruit. He judged the whole world by the narrow standard of particular and exceptional circumstances. In reality, where mediæval conditions remain, engrossing is an ever-present danger. Thus, in Damascus, during the winter 1870–71, a few usurers bought up all the corn and sold it very dear, practically locking it up in the face of the starving multitude. They kept the granaries full, and "literally murdered the poor," in the words of the English consul's wife, who with scanty resources bought bread for gold, and saved a few lives. (*The Romance of Isabel Lady Burton*, 1898, p. 468.)

And Adam Smith's glorification of the middleman, misplaced for the simple old world, is scarce less misplaced for the complicated modern world, with crafty speculations and widespread combinations ever at work to disturb market prices.

§ 5. **Mistaken Apology for Monopolies.**—An apology for monopolists is sometimes urged that they have special advantages for production which outweigh the loss to the buyers from the absence of a market. Let us grant in many cases the special advantages: the question whether they outweigh the loss, remains; and it will be found that the advantage must be great indeed if it is to turn the balance. Let us alter the row of costs in Table vi. and make them very favourable to cheap selling by multiplying the most efficient businesses, as follows:

Table vii.

Syndicated businesses . .	A	A	B	B	C	C	D
Value to each in dollars .	1	1	2	2	3	3	4
Groups of competing buyers	H	J	K	L	M	N	O
Value to each buyer in dollars	9	8	7	6	5	4	3

Various gains of the monopolist according to the amount sold.

Number of bales sold.	Price to effect the sale.	Total costs in dollars.	Total receipts in dollars.	Net gain in dollars.
70	3 dollars.	160	210	50
60	4 ,,	120	240	120
50	5 ,,	90	250	160
40	6 ,,	60	240	180
30	7 ,,	40	210	170
20	8 ,,	20	160	140
10	9 ,,	10	90	80

Even in this case the monopoly price will be 6 dollars instead of the former market price of 5 dollars, and only 40 bales will be sold instead of 50.

And remember, as often and rightly urged, the ability to exact monopoly prices is a premium on incompetence, because a great spur to efficiency is taken away; and thus often the result would be the multiplying of the less efficient businesses, the E, and F, and G of our Table, rather than of A, and B, and C, the more efficient.

So Marshall points out (p. 447) that the least efficient members of a combination often impose their policy on the rest. Indeed, there is the perpetual likelihood of indolence and stupidity prevailing; it requires thought and trouble to develop business or traffic, and often besides a temporary diminution of income. Moreover, the short-sighted greed that prefers to future profit an immediate gain by exorbitant charges is fostered by the modern form of business in transferable shares, tempting shrewd men to raise the price of shares by a temporary increase of receipts, and then to sell their own shares before the inevitable decline.

Besides the double offence of withholding national resources and charging monopoly prices, a third offence of monopolists is the practice of *discrimination*, that is, favouring some dealers and boycotting or handicapping others, according as they do or do not conform to the dictates of the monopolist.

Thus "the Wholesale Grocers' Guild of Canada, which includes 96 per cent. of the Dominion's wholesale traders, entered into a compact with the Canadian sugar refiners, who agreed that dealers outside of the guild should be charged 30 cents per 100 lbs. more for sugar than those who were in the guild. In November, 1887, fourteen members of the guild were expelled and were compelled to pay the higher price." (Baker, *Monopolies and the People.* New York, 1890, p. 76.) Again, "a combination among manufacturers of railway car-springs, which wished to ruin an independent competitor, not only agreed with the American Steel Association that the independent company should be charged ten dollars per ton more for steel than the members of the combine, but raised a fund to be used as follows: When the independent company made a bid for a contract on springs, one of the members of the trust was authorised to underbid at a price which would incur a loss, which was to be paid for out of the fund. In this way the competing company was to be driven out of business." (*Ibid.* p. 85.)

No doubt the monopolist may often have good reasons for not charging a monopoly price. He may wish to lessen the temptation to outsiders to attack

his monopoly: he may have far-reaching plans of developing future business by present sacrifice of gain: he may be moved by fear of public opinion, by philanthropy or by a sense of justice. Thus the price may even be less than the market price, and he may share with the public the gain from single management (called by Marshall *compromise benefit*, p. 549).

But such compromise is precarious; his successor or even himself may withdraw his concession; and if no single ruler is to be trusted with arbitrary power over his people, so no seller is to be trusted with arbitrary power over his prices.

§ 6. **Dilemma: Waste through Competition.**—Having condemned monopolists, we seem caught in a contradiction. For undoubtedly in many cases the advantages of single management and large-scale production outweigh those of free competition, and enable the monopolist, if he is willing, to charge less than what would have been the market price had there been no monopoly. For the advantages of concerted labour (already explained Bk. II. ch. iii.) can be secured more completely by the monopolist than by a number of competing firms; he can more easily introduce machinery, utilise waste produce, and reduce to a minimum the cost of storage and of insurance. Moreover, he saves two immense sources of waste, which with our modern development of transport and communication, and our modern extension of sales to distant and unknown customers, have opened like great gulfs of expense, and which can be called cross delivery and advertising.

Cross delivery is just the opposite of the orderly distribution of letters and parcels by the post office. We see both in the retail and wholesale trade a wasteful movement of goods and men: vehicles both on the railways and the roads passing and repassing each other carrying identical goods, three-quarters of which movement could have been saved had the distribution been under single management. A familiar and daily example is the delivery of milk in our large towns.

Advertising, taken in the widest sense, involves a tremendous waste. Thousands of keen-witted men are wholly employed as agents, canvassers, or commercial travellers in persuading people to buy from one firm rather than from another. Thousands of salesmen and shop assistants are wasting time and soiling conscience in persuading people to buy goods under more or less false pretences. And the sums spent on placards, circulars, and newspaper advertisements reach sometimes for a single firm the amount of £100,000 a year.

Moreover, the desperate struggle for customers daily offers an inducement to all sorts of adulteration, enabling a lower price to be profitably charged, and rivals undersold; and similarly there is the strongest inducement to foster misdirected consumption. On these evils and this waste we can refer back to Bk. I. ch. iii. §§ 7, 8, and to the papers by Dr. Smart and Mr. Macrosty, referred to in APPENDIX H.

§ 7. How Monopolies can be a Benefit.—Although much of the waste we have described as accompanying competition is not a necessary accompaniment, but removable by wise legislation and by restraining competition within reasonable limits, still the establishment of monopolies has appeared the readiest way of checking the waste; and it seems prudent, instead of desperate attempts to reverse the current of industry and preserve free competition and market prices, to recognise that monopolies are suited to our times, and to aim, not at their abolition, but at their reformation.

First then let us compel publicity of all prices, all charges, all payments, so that the evil of discrimi-

nation (mentioned above) may be held in check. And secondly, let local or central authorities have a voice in the settling of the price-lists, and forbid sudden, great, and uncalled-for changes of price. "I see nothing for it," says a writer of great weight, "but that, in countries where the monopolising movement is well under weigh, the Governments should assume the duty of in some way controlling prices. The principle of public determination of maximum rates and maximum dividends has already been recognised in various countries in various directions; and it will doubtless have to be carried a good deal further." (Professor Ashley, *Economic Journal*, June, 1899, p. 170.) Monopoly we must needs have in many things, but not monopoly prices.

Thus in the case just given in Table vii. where the monopoly price was 6 dollars and 40 bales were sold, the monopoly might still remain and the price be fixed by authority at 4 dollars, in which case, the monopolist no longer having a motive to restrict the supply, the amount sold would be 60 bales, and the buyers and the nation would gain more than if, as set forth in Table i., there had been many competing producers and a genuine market price. These fancy figures illustrate the solid fact that in some cases, like the supply of water, gas, or electricity, or communications by railway, post, or telegraph, an official tariff can be permanently and profitably at a lower figure than could be reached under the most efficient competition.

§ 8. **Patents and Copyright.**—In certain special cases a monopoly price, though an immediate loss to the community, is an ultimate gain. These are the cases of patents and copyright. A patent allows to the inventor exclusive rights of use or sale of some particular article or process for a certain time

If the invention is of any use and brings any benefit to the patentee, there is a probable loss in depriving others of the power to use it: but there would be a much greater loss if the spur to invention were removed which is given by the prospect of a patent; and the many discussions on this question seem to result in the conclusion that no other way of stimulating inventions is open to less objection than the system of patents. *Mutatis mutandis*, the same can be said of copyright.

§ 9. **Retail Dealing: General Conditions.**— The distinction of retail price from wholesale, as explained at the beginning of this chapter, is not the same as the distinction of non-market from market price. For there can be wholesale non-market prices, and retail market prices. Still in general the conditions needed for a free and open market are less likely to be found in retail dealing; and the risk of monopoly is greater.

In retail dealing, again, we often meet as distinct both from monopoly and from market prices what may be termed *private* or *personal prices*, namely those that depend on the personal character and private circumstances of the individuals who strike the bargain. A man skilful or unscrupulous, and who does not mind loss of time or dignity, can sell for more or buy for less. There is, therefore, much saving of time, trouble, and untruth, by prices being fixed for all customers alike, and fixed for some considerable time, though in the meanwhile wholesale market prices may fluctuate. This last arrangement is not unfair, being of the nature of a tacit

mutual insurance against fluctuations in price, and being a convenience to both parties.

An immense amount of time, as often has been observed, is wasted in bargaining in the East. In the United States also, in the provincial towns, the storekeeper asks 25 per cent. above what he will take, and a regular battle of bargaining called "Jewing down" has to be fought out before the price is settled.

The great variety of retail prices, according to the person of the buyer and of the seller, is well illustrated by Mr. Robert Newman in the *Economic Journal*, Sept. 1897. Each chemist in his prices is a law to himself, and in shops in the same neighbourhood such articles as screws, nuts, nails, and common tools are sold at different prices.

Observe that many *sales by auction*, although there is only one seller, partake of the nature of the market, whenever similar goods are often being sold at no great distance either of time or space. Besides, there is a set-off to the singleness of the seller in the probable fact that he is desirous of selling then and there. In cases, whether of sale by auction or private dealing, where the most a buyer is prepared to give reaches a figure far above the least a seller is prepared to take, it makes a great difference who first proposes the price; for on this depends whether the upper or lower figure is first reached. So the price at an ordinary auction is not likely to be so high as at a "Dutch auction," where instead of beginning with an absurdly low price and working up, the auctioneer begins with an absurdly high price and works down. Sometimes also excitement will raise the price at an auction higher than at a private sale; for many people who are not regular traders are not fully conscious of what a thing is worth to them, its value in use to them is vague, and they do not know their own minds.

§ 10. **Exorbitant Retail Prices.**— Legitimate skill in making a bargain is one thing, fraud and extortion are another; and retail dealing has been disfigured over and over again by these latter abuses, and has exhibited the notable world-wide phenomenon of exorbitant retail prices.

It is indeed quite fair that retail should be higher than wholesale prices: the dividing into small

portions, the holding of many stocks, and in general the business of distribution, is costly, taking much time and trouble and requiring more or less capital to be used or used up in storing or preserving goods. But a reasonable payment for such costs is far from accounting for the immense divergence often seen between retail and wholesale prices. One ground of this divergence is that rich buyers shrink from bargaining as a humiliation, or are negligent in their housekeeping, and leave to servants to pay; and thus pay whatever is asked. Another ground is the real trouble of making a bargain: people have other and better uses for their time than chaffering, which for many is indeed a practical impossibility.

Two examples of exorbitant retail prices among the higher and middle classes in England are payments to undertakers for funeral expenses, and to builders and decorators for the building, repair, and decoration of houses. Notice, that where tradesmen habitually give a commission to servants on their master's purchases, retail prices seem higher than they really are.

But the divergence between retail and wholesale prices has another ground which is a crying evil. Advantage is taken of the ignorance, or hurry, or timidity, or dependent position of the poor, and exorbitant charges are made and paid. Sometimes the oppression is open, and when by means of iniquitous laws of debt a trader can bring a poor family into subjection to him and make them buy at his own terms. Sometimes the oppression is veiled under some one of the many varieties of fraud, notably the use of false weights and measures, and the sale of adulterated instead of genuine goods.

Finally, the combination of middlemen frequently result in monopoly retail prices.

Thus rings of salesmen in London control the price of fish, vegetables, fruit, and meat; and can telegraph to their agents to keep back supply that might lessen price. And combinations of millers and bakers have prevented a reduction in the price of bread in proper correspondence with the long-continued low price of wheat; and have favoured the displacement of English wheat by foreign, not that the foreign is better for food—far from it—but better for the profit of the seller, and being drier, is more absorbent of water. An indication of the over-charge for bread was seen in 1892, when a large bread company declared a dividend of 37½ per cent. And had the old regulation of prices (assize of bread) been in force, the price of the quartern loaf would have been a little over half the actual price, and the weight of the sixpenny loaf nearly double its actual weight. Similarly, in the large towns of Spain, in 1896, though the price of a *fanega* of corn had fallen from about 11 to about 7 francs, the price of bread was not lowered. (*Econ. Journal*, 1896, p. 276.) So also in France, in spite of the fall of the price of grain and of wholesale meat, the price of baker's bread and butcher's meat has fallen but little if at all. And on other goods also the charges of retailers are exorbitant; so that by a rough calculation the tribute levied by middlemen on the 25 milliards of francs spent on consumption is some 7½ milliards, or more than double the total taxation of France. (Gide, *Econ. Polit.* 4th Edit. p. 190.)

§ 11. **Parasitic Retailers.**—Where laws and customs are such that exorbitant retail prices are common, an unfortunate consequence is likely to follow that so many are attracted into the retail business as to make fair and reasonable prices and honest dealing insufficient to give them a living; and Adam Smith was never more mistaken than when he said that shopkeepers and tradesmen could never be multiplied so as to hurt the public. Some remedy has been put to this evil in England by the spread of what are known as co-operative stores

among the middle classes and the artisans, enabling retail buyers to avoid fraud, adulteration, and overcharge, as well as the temptation to get into debt. (See Book I. ch. v. § 18.)

Observe that such stores do not remove the cost of retailing. They must be borne by some one, and they take the shape, partly of the excess, small indeed but still an excess, of store prices over wholesale prices; partly of the buyers having more journeying and carrying to do, and spending more time and trouble over their purchases, and buying in larger quantities at one time, and getting less exactly what they want, than if they had efficient retail dealers close at hand who made it a business to know and satisfy the wants of their customers. Hence if our laws on adulteration, on fraud, on debt, and on extortion were different, the field for co-operative stores might be much smaller. In the United Kingdom the law or its execution is scandalous and lamentable: the poor are grossly and frequently defrauded, and where a conviction is secured, the convicted cheat escapes with a fine, often paltry, and is allowed to go on holding his position as before.

§ 12. **Customary or Legal Prices, or Tariffs.**—Sometimes prices have been fixed by law, either customary law or strict positive exactment. They may be called respectively customary and legal prices, and the word tariff used as a common term for both. Thus in many old village communities, each family had an hereditary trade, as that of blacksmith, shoemaker, or potter, and charged prices fixed by immemorial custom, quite unlike the competitive dealing with strangers in a market, where they would make the best bargain they could. Even in Western Europe wherever friendly relations exist in remote and quiet places, the habitual regulator of retail prices is old custom modified from time to time, according to the changes of costs or

utility, by the sense of fairness. This fact is noticed by Mill; but he should have added that where such customary prices exist they have the great advantage of saving much time, trouble, uncertainty, and dishonesty.

A new field for customary prices has been opened by railways; for a good witness believes custom to be the main factor in the adjustment of local railway rates in England. Many thousands of such rates are fixed and published every year; for a price has to be named for the carriage of every article from any one railway station to another. And such rates are not reached by bargaining, nor again by elaborate calculations of cost or of utility, but are mostly based on precedent or analogy, and are thus customary. (W. M. Acworth on the Theory of Railway Rates, *Economic Journal*, September, 1897.)

Positive law as distinct from custom has frequently interposed to fix prices, notably for chief articles of food and drink in towns, as for bread and ale during many centuries in England. And often when privileges are given like plying for hire in the public street, or monopolies, like the supply of water, or gas, or railway transport, a maximum price is fixed by law.

In all such prices observe that an authority cannot fix what price it likes. Private costs of production on the one side, and private utility on the other side, form a boundary of possibilities; and absurdly low or absurdly high legal prices, if enforcement were possible and secret sales could be stopped, would put an end to all buying and selling. But between these boundaries of possibility there is a wide field in which prices can be fixed by law. Whether they ought to be depends on many

circumstances; in general, assuming a reasonable humane and efficient Government, some kind of tariff or limitation of charges is to be recommended in the three following cases.

First, where there is a monopoly; for here, as already shown, the intervention of some authority is needed to secure a fair price instead of a monopoly price. Hence the need of a tariff fixed by law for railway rates and fares, for gas and water rates, for tolls on ferries and bridges. Moreover, with the great extension of monopolies characteristic of modern times, a corresponding extension of tariffs is to be expected.

Secondly, where although there may be competition on both sides, the trouble of making a separate bargain in each case is very great. So notably in hiring carriages; and all travellers can bear witness to the blessings of a well enforced tariff.

Thirdly, where poor people in retail dealing are liable to be charged extortionate prices. Only in this case the mere tariff is not enough, and stringent measures against adulteration and selling goods of bad quality or short weight are needed.

The more simple goods are and the more alike, the easier can prices be fixed for them by law; for a quartern loaf or 1,000 feet of gas, for example, more easily than for a pair of fowls or a cloth coat. Hence in general a tariff of goods that much vary in their quality should be avoided because it can so easily be evaded.

§ 13. **Problem of Railway Rates.**—This matter is in itself very grave for the whole civilised world, and also illustrates the problems which modern economists have to face. Let us then hear a few words from railway experts. Mr. Acworth points out how railways "are the most extreme instance of

business conducted at joint cost; their whole capital outlay is incurred on joint account; almost the entire cost of their service is joint; and the extra expenditure incurred specially for any one item of the joint product is extremely small." (*Economic Journal*, Sept. 1897, p. 321.) Thus bye-products are conspicuous in railway earnings. "The Taff Vale was built to carry coal, and the passenger traffic is a bye-product. The Metropolitan was built to carry passengers, and the coal traffic is a bye-product. Whatever the Taff can earn from passengers or the Metropolitan from coal is broadly speaking pure gain. Again, traffic which is not local, and which can be enticed on the line is practically a bye-product, and thus can be carried profitably at rates which would be ruinous if applied to the general traffic of the railway." (*Ibid.* p. 322.) Then, "to no other industry is the law of increasing returns so much applicable as to railways. If a hundred units of traffic cost the company one hundred shillings for interest and expenses, . . . a thousand units will cost not 1,000, but 325 shillings." Thus the Lancashire and Yorkshire Railway and the Midland Great Western of Ireland have about the same mileage. The English railway on the maintenance of way spends eight times as much as the Irish, but carries forty times the traffic. The cost of maintenance, therefore, in this case increases, compared with increase of earnings, in the ratio of 1 to 5. (*Ibid.* p. 323.) It follows that increase of traffic is for the railway of supreme importance, and immense reductions of rates may be profitable if only traffic is sufficiently stimulated.

Now from all that has been said we see that "though all the rates must be so fixed as to pay all the expenses both of construction and working, separate rates cannot be fixed according to cost of individual service or even according to the average cost of services to traffic in the same group. For . . . the cost of the service cannot be ascertained. And . . . if it could be, . . . it would be of no use as a standard. To charge the average cost would be to drive away a large portion of the traffic, and so to increase . . . the average cost of the remainder." (*Ibid.* pp. 324, 325.) As a fact, many of the charges (as noticed in the previous section) are customary. And Mr. Acworth's general conclusion is as follows: "Almost the whole railway expenditure is incurred on behalf of the traffic as a whole. Against the traffic as a whole the entire cost must be charged. The apportionment is, and ought to be, made as between the various items and categories of traffic on the basis of what each item or category can bear. The word 'can' has, however, a very elastic signification. Sometimes it signifies, 'can pay and yet leave an advantage

to the customer;' sometimes, 'will consent to pay rather than turn aside to a rival route;' sometimes, 'has been wont to pay;' sometimes even, 'ought morally to be asked to pay.' Such is, I believe, a rough analysis of the motives which govern . . . the practical conduct of rate-making authorities." (*Ibid.* pp. 330, 331.)

In the foregoing I think Mr. Acworth is in substantial agreement with the American expert, Professor Hadley. But the further question arises whether railway managers can be trusted to fix such reasonable rates. And often they cannot. "A railway company, whether because it is too stupid to appreciate the potentiality of wealth involved in potential but non-existent traffic, or too rich to exert itself to increase its income, both can and often does leave entirely undeveloped whole categories of profitable traffic that might by reasonable reductions of rates be brought into existence." (*Ibid.* p. 327.) This is confirmed by Professor Hadley. "Our business men can look a week or a month ahead. . . . But we have not learned to look ten or twenty years ahead. The managers of our largest enterprises still invite competition by high rates instead of forestalling it by low ones, and still handicap their best customers by discrimination instead of developing their trade by equality of charges." (*Economics*, p. 175.) "The managers of a monopoly have it in their power to do a great deal of harm before they begin to feel the loss to themselves which arises from the adoption of a short-sighted policy. . . . A railroad ultimately finds it suicidal to kill the local shippers, who are its best permanent customers; but it is small comfort to the shippers to know that their deaths are to be slowly avenged." (*Ibid.* p. 165.) Further, he notices the danger (greater in America than in England), of managers making profit for themselves by salaries and contracts from unremunerative works, and also by the manipulation of shares (p. 179), an evil of which we have already given warning.

Apart from the management of railways by Government, a course involving many difficulties of its own (as we shall see in Book IV.), Professor Hadley (pp. 166—179) notices three methods of regulation to meet the evils we have noticed. First, limitation of profits, an unpractical device, liable to be evaded by "stock-watering," namely, fictitious increase of the company's capital stock, or to be evaded by high salaries, or to be obeyed and a small business done with high rates instead of a large one with low rates. Secondly, fixing of rates by public authority, an unsatisfactory plan because there is no clear basis on which rates can be fixed, though needful at times as the only remedy against extortion.

Thirdly, enforcement of far-sighted methods of management. This plan involves publicity of rates, prevention of any discrimination to the injury of particular persons or places, and also the enforcement of responsibility of directors and managers; and seems the wisest and most practical course.

§ 14. **Theory of Fair Prices.**—From this chapter and the last we can draw the conclusions that a *fair price* is when price is within reasonable limits a true expression of social value; that we may presume market prices therefore are fair prices; and, assuming ordinary good sense, that customary and legal prices are fair also; but that exorbitant prices due to monopoly, or combinations, or spreading false news, or fraud, or pressure on the poor and distressed, or knowledge of a peculiar personal (as distinct from general) affection of the buyer, or of his peculiar ignorance, are unfair.

Fancy prices are not necessarily unfair; for if the fancy is shared by many there is some approximation to a market, as in the sale of curiosities like coins or stamps, or of works of art, like that masterpiece of the French painter Meissonier, measuring 20in. by 30in., composed of materials worth a score of shillings, and having taken some two or three months to paint, and yet sold by its possessor for £20,000 and resold without fraud or pressure for £34,000. But if the fancy is individual and peculiar, we have no right to take advantage of it; nor again if the object is only of high value to a man, because it can be used for his annoyance, such as a strip of ground running into his property. See Rev. Joseph Rickaby, *Moral Philosophy*, pp. 255—257.

And far from fairness being an arbitrary, vague, and impracticable notion, the truth is that in ninety-nine cases out of a hundred, both in wholesale and retail trade, a jury of honest dealers (each being a *bonus paterfamilias* in terms of Roman

law) could agree on what was the fair price, or the upward and downward limits of fair price, in other words, on the *justum pretium summum, medium, et infimum* of any article they were accustomed to deal in. They might blunder about the reasons, not about the conclusion.

In fact, as Professor Marshall points out (*Principles*, p. 698), there is in each trade and branch of trade a more or less definite fair rate of profit recognised on each transaction or turn-over; in other words, a fair price adequate to give such rate of profit: a price an honest man is expected to charge for making goods to order, and what a court of law will allow in case a dispute arises between buyer and seller. He well observes how instructive is the "expert evidence" in such cases, and how under cross-examination the reasons latent in their minds are brought out and generally show that if the recognised fair price is higher in one case than in another, the reason is that the first case requires "a longer locking up of capital, or a greater use of expensive appliances (especially such as are liable to rapid depreciation, or cannot be kept always employed, and therefore must pay their way on a comparatively small number of jobs); or that it requires more difficult or disagreeable work, or a greater amount of attention on the part of the undertaker [entrepreneur], or that it has some special element of risk for which insurance has to be made."

The foregoing doctrine on fair price accords with that of the Scholastics on *justum pretium:* there must be equality between the *pretium* and the *res*, that is, the price to be fair must properly express value. But then value is by no means any innate quality, depending on the perfection of the object, else mice would be more valuable than corn, or on its adaptability to man's uses, else a bushel of corn would be more valuable than a diamond, but mainly on the public estimate of importance. The estimate may be unreasonable —nay, much of our current views are unreasonable—as of the Ethiopians ready to give gold for glass and trinkets, but still is an estimate, and the *vulgare pretium* is rightly determined in the main by the *vulgaris æstimatio.*

This notion of just price, worked out in detail by the theologians, and in later days rejected as absurd by the classical economists, has been rightly revived by modern economists.

Thus Professor Hadley (*Economics*, ch. vi.), noticing from the fact of the large quantity of fixed capital engaged in modern manufactures, that there is a great gain to each producer to increase his output, his costs being less as his sales increase, because the proportion of fixed charges is less; and the consequent perpetual temptation to steal business by "cutting rates," that is, lowering prices below what is remunerative to the trade as a whole; and how other rivals doing the same, the issue is the frequent ruin of the straightforward business man, and a monopoly in the hands of a few combined shrewd speculators, sums up in mediæval language: "Thus prices, instead of constantly tending to gravitate towards an equitable figure, oscillate between two extremes. The rate of production, at figures which give a fair profit, is usually either much larger than the rate of consumption or much smaller. In the former case prices are unremunerative and unjust to the producer; in the latter case they are oppressive to the consumer. The average price resulting from such fluctuations may perhaps be a fair one; but the wide changes of price are disastrous to all parties concerned." (p. 153.)

Similarly Mr. E. J. Smith, describing (in the *Economic Review*, April, 1898) the Birmingham combination of masters and men against such desperate competition, and answering the reproach of monopoly prices and coercion, says: "The business morality I aim at is, not to extract from the purchaser all you are able to get, but all you ought to get [*i.e.*, the *justum pretium*]. The exact amount may be, and is, a matter of opinion; but it must not be the opinion of a single individual, but that formed by the common sense of a community [*i.e.*, the *vulgaris æstimatio*]. The public have nothing to fear from this. They have everything to fear when they are at the mercy of one or two individuals who are guided by selfish instincts only."

The question of fair price is well treated by the Rev. T. Slater, S.J., in an article on Value in the *Irish Ecclesiastical Record*, Sept. 1901, vol. x. pp. 193 seq. He notices with Molina how varied and complex may be the grounds of the public estimate (*vulgaris æstimatio*); yet this social value, unlike individual value, can be ascertained and serve as the criterion of a just equivalent in a contract.

CHAPTER IV.

DIFFERENTIAL GAINS.

§ 1. Meaning of Differential Gains or "Economic Rent."—In the case of all market prices and in many other cases where there is one price but many sellers or buyers or both, this one price gives very different advantage to the different dealers, to the sellers and producers on the one side, and to the buyers and consumers on the other side. For, as shown in the chapter on market prices, there is great diversity in private costs of production on the one side, and in private utility on the other.

Thus on looking to the first table given above in chapter ii., the reader will see that the one price of five dollars gives much more advantage to A than to E among the sellers, and to H than to M among the buyers; and great stress has already been laid on the beneficial effect of a good market, that it gives a premium to more efficient producers, and enables goods to reach those consumers to whom they are of the most advantage.

The characteristic feature of all such gains is that they are *not price-determining but price-determined.* Hence they are carefully to be distinguished from the gains of a monopolist; for these are price-determining: prices are high because the monopolist is making a high profit. But in the case of differ-

ential gains the receiver does not make prices high by his high profit: on the contrary, the fact that prices are what they are, and are determined on grounds independent of his action, enables him to secure his high profit.

In modern economics great attention is paid to these differential gains, and to all of them; whereas the classical economists paid almost exclusive attention to one kind only, under the title of the rent of land, namely, the differential gains due to the different fertility of different portions of land supplying the same market.

No agreement has yet been reached by economists on a technical term to express all kinds of differential gain, though the commonest in use is "rent," sometimes called "economic rent," to distinguish it from the use of the term in ordinary conversation. So an acute American writer, Dr. C. W. Macfarlane, thinks "that economists are to-day fairly well agreed that rent is a general function, common to all the factors of production. In other words, that every surplus which does not enter into the determination of price is a rent, whether it is secured by landlord, capitalist, labourer, or entrepreneur." (*Value and Distribution*, 1899, p. 118.) Professor Marshall uses the terms true economic rent, quasi-rent, producer's rent, and consumer's rent, though for the two last he prefers the word surplus instead of rent. In view of the grave objections to the use of rent in this sense (objections explained at the end of this chapter), the word "difference" was suggested in the first edition of this work; but to avoid possible confusion, the more cumbrous but more intelligible phrase "differential gain" is used in the present edition.

§ 2. **Note on "Consumer's Rent."**—The examples of differential gain to be given in this chapter are to be considered as income measurable in money. Income indeed, as we have seen in the Prologue, is no complete indication even of a man's financial position, much less of the real benefit he receives from his goods. And, as explained in the chapter on the theory of consumption, the price a man pays for goods only measures their marginal value to him, not their total value. This being so, Professor Marshall is led to speak of a consumer's surplus or rent, this being the surplus satisfaction afforded by the thing purchased over the price paid, the surplus being measured by the excess of the price which the consumer would be willing to pay rather than go without it, over that which he actually does pay. (*Principles*,

p. 199.) But this seems illusory. For whereas a differential gain implies a definite objective advantage which some people get and others not, this consumer's surplus is vague, subjective, unascertainable, and in a given time and place may apply pretty well to all alike. Professor Marshall calls it the advantage of opportunities, environment, or conjuncture, and gives an illustration of how a man may purchase tea for 28 shillings that is really worth to him 34 shillings, and thus may secure six shillings' worth of surplus satisfaction. But this sort of calculation can be applied quite apart from any advantageous environment or surroundings of civilisation. Thus we can apply it to Robinson Crusoe, and say that because he could get food for four hours' labour a day that he would have given eight hours' labour to get rather than be without, therefore he secured a surplus daily of four hours' labour.

It seems, therefore, that in the controversy on this matter between Professor Nicholson on the one side and Professors Edgeworth and Marshall on the other, the advantage rests on the side of Professor Nicholson, who rightly urges that money, as it means different things in different times, places, and circumstances, and to different people, cannot be an accurate measure of utility. And to his question, "Of what avail is it to say that the utility of an income of £100 a year is worth (say) £1,000 a year?" (*Political Economy*, I. p. 58), Marshall's answer (*Principles*, p. 202) seems unsatisfactory; and the further question: "Of what avail is it to say that £7 spent on coals is really worth £29 10s.?" (*Economic Journal*, 1894, p. 347) is left unanswered. Moreover, Edgeworth's appeals to common sense (*Ibid.* pp. 154, 155) seem to indicate weakness in the argument. We may conclude, therefore, that these calculations are misleading and a waste of time.

For this discussion, see Marshall, *Principles*, Book III. ch. vi.; Nicholson, *Political Economy*, Book I. ch. iii.; and the *Economic Journal*, March and June, 1894. For an analogous discussion on "Saver's Rent," as much justified as on consumer's rent, see C. W. Mixter in the *Quarterly Journal of Economics*, April, 1899.

§ 3. **Grounds of Differential Gains: Personal Capacity.**—The personal capacity of the merchant or manufacturer or carrier or grower or breeder, is a very important ground of differential gains, as can be seen by the varieties of success or failure where the circumstances are similar, but the men dissimilar.

Some years ago, before the chances of the individual had been lessened by the vast growth of combinations, an American economist reckoned that of the entrepreneurs starting a new business some three-fourths failed within five years; while in France the number of new undertakings that are really successful was reckoned at not more than 15 per cent. of the whole. In England any large landowner of experience can bear witness to the difference between a stupid and a sensible tenant. Of two joint-stock companies in much the same position, one may give the shareholders two per cent., and the other ten per cent., according to the competence of the general manager. And the many employers who have risen from the ranks of the workmen, in parts of England more than half, in parts of America formerly more than nine-tenths, prove that though "a man's a man for a' that," nevertheless one man is not as good as another. Only remember that "goodness" and "capacity" in the business sense are the power of diminishing private costs of production, not public costs; and may be the capacity to lie, cheat, bully, goad, extort: to ruin rivals without scruples or mercy: to take the utmost advantage of the weakness of the poor and of the liability to depraved consumption: to encourage this consumption to the utmost, and thus to cause the utmost waste. But remember also that one great portion of business capacity is the power of attracting and preserving the services of skilful and energetic subordinates and putting the right men in the right place.

A striking example of the effect of capacity in selecting and managing animals is to be found in a report on 88 dairies in the State of Wisconsin, giving the following results among different groups of dairies. (*The Times*, March 10, 1890.)

Number of dairies.	Number of cows.	Average earnings per cow.
16	246	£4 8 0
30	654	5 13 8
29	483	7 16 10
10	172	9 19 4
2	10	11 6 6
1	5	16 4 5

The absolute figures of the earnings may perhaps be too high or perhaps too low; but this will not affect the point of the illustration, which is the great *difference* of earnings.

§ 4. **Favourable Connections; Fortunate Accidents; Possession of Trade Secrets.**—Friends and favour, or what is called a good business connection, is often of the greatest value and gives one man twice the profits of another. If indeed a man's many customers come from his own energy and from his skill in advertising, this advantage falls under the previous head; for under the present head we are dealing with what is due not to himself but to other people.

Mere accidents may for a time at least cause a great difference in returns. Thus if a murrain destroys many beasts, or a blight many fruit-trees, or a drought much corn, those whose beasts or crops have not suffered will gain extra from the rise of price that is the result of the calamity. Political events or sudden changes of fashion may also benefit some producers or traders and injure others quite unexpectedly. But the shrewd anticipation of future events and the prompt seizure of

every opportunity of enrichment belong not to this head of differential gains, but to the first.

Trade secrets are another source of differential gains, not indeed such secrets as enable a kind of goods different from any other to be produced; for then the extra gain would be due to monopoly, and would not be the result of the price, but the cause of it; whereas the secrets that are the ground of differential gains are such as enable the same kind of goods to be produced which other people produce, only in an easier way. Patented processes fall under this head, whereas patented goods fall under the head of monopolies.

This distinction is indeed no hard and fast line, because there is no hard and fast line between what is and what is not a different kind of goods. The multitude of patent pocket-pencils or of patent mechanical toys can hardly each be called a separate kind of goods, and the patentee a monopolist.

Observe that where a trade secret is such that some of the subordinates must have a knowledge of it, a portion of the extra gain may be absorbed in the extra wages to secure the fidelity of these subordinates.

§ 5. **Less Wages to Pay.**—The payment of lower wages than most others who produce for a common market is another ground of differences. Under many circumstances—cases occur in England at the present day—some employers pay less than others. In London, for example, there is the greatest variety in the rates paid to women by city firms for making the same kind of tie. (Booth's *London*, Vol. I. p. 415.)

When a common market is supplied from distant sources, there can be the most striking divergencies of wages, for example, in the case of the market for cotton-cloth in

Bombay, where there is one price for similar goods, but very different private costs of production under the head of wages, according as the cloth has been made by the high paid operatives of Lancashire or by the low paid natives of Bombay. Often indeed low wages to the worker do not mean low wages from the master's standpoint, because of the worker's inefficiency; and *vice versa*. See Bk. III. ch. iv. § 14.

§ 6. **Less Rent or Interest to Pay.**—Another ground is the payment of less rent than others for farms, shops, houses, and machines; or less interest for borrowed capital. Now, among those whose goods come to the same market, there can be the greatest variety in such payments. For example, before the year 1881 there was great variety in farm rents in England and in Ireland on different estates, and all the while the low-rented farmer was getting just as high a price for his milk or cattle or grain as the high-rented farmer. Again, the difficulty of Irish manufacturers competing in a common market with Scotch, has been attributed in part, and probably with justice, to the high interest the Irish have to pay compared with the easy terms granted by the bankers of Scotland. Again, the ground-rents in many manufacturing towns in England are so high as to cause a movement of factories towards the suburbs or the country, leaving the centre of the towns to be occupied by shops and warehouses. Meanwhile the country and suburban manufacturers, though paying so much less rent than the urban manufacturers, receive in the common market exactly the same price as these do.

This item of rent or interest among the maker's or dealer's private costs of production, is liable to be affected by alterations in the value of money. If there is a *general rise* of prices, that is, a *depreciation* of money, then the more property

you hold at a fixed rent or interest, and for the longer term, the more you gain; and thus an entrepreneur who has borrowed gets an advantage over those who have not borrowed; while just the reverse happens if there is a *general fall* of prices, that is, *appreciation* of money.

§ 7. **Action of the Law of Increasing Returns.**—The law of increasing returns, that is, the greater return under certain circumstances to more elaborate and highly organised production (*supra*, p. 63), may enable some producers, notably large manufacturers, to secure a differential gain where a number of other producers, notably small manufacturers, who supply the same market, have much less advantage from concerted labour and uninterrupted utilisation of fixed capital, and yet get not one farthing more for their goods.

§ 8. **Superannuation of Fixed Capital.**—The depreciation of capital fixed in machinery and buildings is often very rapid in an age of invention, and becomes a fruitful source of differential gains. The owners of the new and more efficient machinery and appliances produce at far less cost than the owners of the old and less efficient machinery and appliances, but both receive exactly the same price for their goods.

In many trades the average time before a machine is superseded by a better is only fifteen years, and in some trades ten years or even less. (Marshall, p. 358.) In cotton mills improvements have vastly reduced the cost of a mill per spindle, with a consequent depreciation of those fitted with old machinery. Thus in the *Spectator* of Feb. 4, 1893, it was stated that a mill which had cost £16,000, had been recently sold for £1,300. Similarly in the hosiery trade, in the ten years ending 1892, improvements of machinery lessened the costs of production by 50 per cent. (B. Jones, *Co-operative Production*, 1894, p. 378.)

§ 9. **Action of the Law of Diminishing Returns.** —The law of diminishing returns is so important a cause of differential gains that it has made many writers forget the other causes. Those producers who occupy the more favoured spots, whether by fertility or situation, get the advantage of the difference between their costs and those of their less favoured co-producers for the same market. In agriculture these differences are very conspicuous, as every market for grain, or roots, or dairy produce, or beasts, or vegetable oil, or garden produce, is supplied from lands of different, often very different, advantages, and the common market price gives a differential gain to all except the least advantageous.

In each case the particular market price of a particular kind of agricultural produce determines the gain each producer receives. If a rotation of crops is needful, the price of the whole series of the rotation, not of one item, is decisive. And clearly where a choice is possible, that particular crop or rotation will be chosen, of which the expected market price will give the greatest profit to the grower. But then some lands are only fit for one or two uses, like marsh lands only fit in India for rice and in England for pasture, or steep slopes only fit in England for timber and in Southern Europe for vines; while some lands might yield more if devoted to some other purpose, but the cost of making the change would outweigh the benefit. In all such cases the price of other kinds of agricultural produce, such as of corn, may rise; but unless the price of the particular produce of these fields rises, that other rise will not enable them to yield a greater differential gain.

The same principle applies to mines and fisheries when the produce is brought to the same market; for the one market price gives very different returns according as the mine or fishery is, or is not, easy of access from the market, and abundant in its yield.

Observe that the condition of the means of communication is of peculiar importance in the case of the heavy, bulky, or perishable produce of agriculture, mining, and fishing. With a revolution in communications comes a revolution in the capacity of different lands, mines, and fisheries to supply particular markets, and a consequent shifting of differential gains among those who supply that market.

In manufactures and commerce the law of diminishing returns is often the ground of differential gains. Those factories and shops most favourably situated gain the difference over their less favoured fellow-dealers in the same market. The possession of a natural force like water-power may sometimes be the cause of the advantage. But the commonest is the being well placed for transport, whether for the fetching of raw materials, or for the sending out of finished goods, or for their reception and distribution in harbours, docks, warehouses, and shops. In this matter the variety in the productive capacity of particular commercial or manufacturing undertakings is as striking as the variety in the productive capacity of particular farms or mines, and is in precisely the same manner a ground for differential gains.

We must be careful to distinguish the high price of shops and warehouses in favourable situations for trade, from the high price of dwelling-houses in favourite situations for residence. The high price of the first is due to their being very advantageous means of production, enabling the owners to secure a large *differential gain*, and they are analogous to fertile or well-situated farms. The high price of the second is due to their being scarce objects of enjoyment (or con-

sumption), enabling the owners to sell them for a *scarcity price*. In the second case there is no possibility of increasing the objects of enjoyment; for the number of houses in a fashionable quarter are strictly limited, and hence there is a scarcity of them. But in the first case there is no scarcity of the means of production, for they can be indefinitely increased; the new means of production often indeed may not be so advantageous as the old, like less fertile fields brought into cultivation, but still are new means of production. This being so, it is plain that the advantages of situation have a very different economic aspect according to whether the well-situated property is a means of production or an object of enjoyment.

§ 10. **Capitalisation of Differential Gains.**— There is yet one point of great importance to be noticed, namely, that most of these differential gains in the present state of society can be, as it is called, *realised* or *capitalised;* that is, the productive advantage can be sold or leased to others, and the gain, instead of staying with the actual holder of the advantage, the farmer, mine-worker, manufacturer, merchant, or retailer, passes away in the shape of interest on purchase-money or in rent of land or premises. A great portion of the wealth of the upper classes comes from the sale or lease of a profitable business, whether the profitableness was due to luck or skill, to a man's own hard work or to his hard usage of others, to profitable sharp practice or profitable generosity, to one's own exertions or another's. To express this separation of extra advantage from its source the best term seems the *capitalisation of differential gains*.

Naturally not every kind of differential gain is equally capable of capitalisation. The sale or lease of business premises in towns and of agricultural land

are the most conspicuous instances of capitalisation, whereas the gains due to accidents and personal capacities are not directly capable of sale, though a good business connection can be, and frequently is, capitalised by the sale of the good-will.

§ 11. **Note on the Ricardian Theory of Rent.**—James Anderson, a contemporary of Adam Smith, urged that farmers' rents were a premium paid for the extra fertility or advantage of their land over the worst land which at the prices prevailing it was profitable to cultivate. West and Malthus, the contemporaries of Ricardo, taught the same; but the theory, as developed by Ricardo and his followers, has received the name of Ricardian. Ricardo himself in his language is obscure and contradictory. In his *Principles of Political Economy and Taxation* (Edit. Gonner) he says: "Rent is that portion of the produce of the earth which is paid to the landlord for the use of the original and indestructible powers of the soil." (p. 44.) Obviously then there can be no "rent" of mines or quarries, and Ricardo blames Adam Smith for using rent in the popular instead of the strict sense, and for speaking of the rent of coal-mines and stone-quarries. But soon he gives a new definition: "Rent is always the difference between the produce obtained by the employment of two equal quantities of capital and labour." (p. 48.) And following this definition he shows in the next chapter (ch. iii.) its application to mines, and how all other mines but the poorest will pay a rent to the owners: the poorest yields the "usual profits of stock." Whatever the others yield above this, constitutes rent.

The question arises whether Ricardo, though expressing himself badly, did not at any rate grasp the theory of differential gains. The answer seems to be that he grasped only a portion of it, and mixed up that portion with mistakes so grave as to make his theory of rent more misleading than instructive. Of these mistakes, first and foremost, "there is no doubt whatever that Ricardo, like West and Malthus, believed that the returns to agricultural industry do actually diminish in the course of history in spite of all improvements." (Cannan, *Theories of Production and Distribution* p. 166, with citations.) Hence, by making this one possible source of differential gains the only source, and by ignoring all other differential gains except that from land, and by not seeing that differences in cost of production could be the result of increasing no less than of diminishing productiveness

—by all this he made "rent of land" appear in an odious light, the "progress of society" ever throwing more wealth into the hands of landlords and leaving less for the commercial and working class to divide between them as profit and wages. So he could say, "Rent . . . adds nothing to the resources of a country. It does not enable it to maintain fleets and armies, . . . [is] advantageous only to the landlords, and proportionately injurious to the consumer." (*Principles*, p. 394.) True, he has no wish for the State, by taxation or otherwise, to take this rent *pro bono publico*. For he is aware of the frequent capitalisation of differential gains. "Rent often belongs to those who, after many years of toil, have realised their gains and expended their fortunes in the purchase of land or houses; and it certainly would be an infringement of that principle which should ever be held sacred, the security of property, to subject it to unequal taxation." (*Principles*, p. 184.) But as Mr. Cannan has well shown (l.c. pp. 387—392), the Ricardian theory of rent was admirably suited and was meant for the practical purpose of attacking the corn laws and abolishing the protective duty on the importation of corn.

Other mistakes in the Ricardian theory were to treat all land in a country as though it produced the same produce for the same market; to forget the importance of locality in relation to markets, a factor almost as important asfe rtility; to forget the continual changes in the relative value of lands due to changes in the art of agriculture, and changes in the demand for particular rural produce; to assume theabsence of monopolies and combinations; to assume a uniform rate of profit throughout a country and a uniform rate of wages, and complete mobility of men and goods; and finally, to assume the absence of any great importation of food, or of any great emigration of people. Hence from amid the superabundant chaff it is hard to separate the grains of wheat which the theory contains. (Some acute criticisms of Ricardo can be found in Dr. Sidgwick's *Political Economy*, Bk. II. ch. vii. on rent.)

John Stuart Mill in some ways improved the Ricardian theory, for he lays stress on its being inapplicable to many kinds of payment called rent of land, such as the peasant rents of the Irish cottiers or Tuscan metayers; and that it implies capitalist farmers acting on a mercantile estimate of profit and loss. (Bk. II. ch. xvi.) Again he notices cases of "extra profit analogous to rent" resulting from "any difference in favour of certain producers" (Bk. III. ch. v. § 4), though indeed he is not aware of the importance of this truth, and fails to work out the consequences. (See the Duke

of Argyll's *Unseen Foundations of Society*, p. 354.) Also Mill rightly enough draws the logical conclusion from the Ricardian premises, and would have the "unearned increment" absorbed by the State. But in some ways he is still more confused than his master, for he makes "rent" to be the effect of "monopoly," and thus confounds price-caused differential gains with price-causing monopolies. And the dismal doctrines of Malthus and Ricardo on diminishing returns as the one cause of rent reappear in Mill, as well as the maginary rate of profit, and the imaginary market-price for a whole country; and also the Ricardian notion of rural produce being homogeneous, wheat, oats, wool, cattle, sheep, market-garden produce, and dairy produce being supposed to be interchangeable, when really, as Dr. Macfarlane points out, "the rent of wheat land is not the difference in productivity between the best wheat land and the poorest land in any employment, but the difference between the best and poorest wheat lands." (*Value and Distribution*, p. 133.)

§ 12. **The Use of "Rent" for Differential Gains a Cause of Confusion.**—The example of Ricardo and Mill show the grave objections to the use of the word "rent" to express differential gains. For we are daily using the word in the popular sense meaning actual rents. And thus economists who use it in the differential sense are daily liable to apply to actual rents what is only true of hypothetical rents. Hence their language, apparently scientific, has in reality been that of political partisans; and in fact has been used to the advantage of the urban and commercial classes, and to the damage of the rural and landowning classes. For this use of the term rent obscures the following facts: (*a*) That a great part of actually paid rent (in the popular sense) is the fruit of great previous expenditure on the land, and thus is interest on capital expended, and not a differential gain at all, and thus not "economic rent." (*b*) That there is no possible means of ascertaining even approximately, except in a few cases of recently-developed lands or towns, how much of any actual rent is return to capital, and how much is differential gain. (*c*) That even if we could ascertain this, still in many cases we could not ascertain who was receiving the differential gain, in those cases, namely, where it had been capitalised. Thus a great part of what is called farm rent is paid away by the apparent receiver in the shape of rent-charges and interest on mortgages; and, above all, the actual owner of the land, where land is often bought and sold, may not be the person who receives the differential gain or any part of it; for he may have bought the land at a price proportionate to the rent-roll. "Rent in a vast number of cases is virtually a form

of interest, being the return to an investment by purchase or outlay." (Cliffe Leslie, *Essays*, p. 267.)

Now, by obscuring these facts, the classical English economists have confused the public mind, placed the nominal holders of land in an evil light, and rendered possible the gross favouring of one portion of the richer classes at the expense of another portion, such as was seen in the Irish Land Act of 1881, when a serious reduction in the rents payable by the tenants having been decreed (most equitably), the whole reduction was (most inequitably) made to fall on one class only of the receivers, namely, the nominal landlords, instead of being apportioned as far as possible *pro rata* among all receivers, whether called landlords, mortgagees, annuitants, rent-chargers, or any other name.

Besides being mischievous for practice, this use of the word rent has been mischievous for theory, causing misunderstandings and fruitless discussions as to whether or how far "rent" enters into cost of production. Obviously, if rent meant no more than price-determined differential gain, it would be almost a contradiction in terms to say it affected the cost of production; and Adam Smith would have been quite correct when he wrote (Book I. ch. xi. *ad init.*): "High or low wages and profit are the cause of high or low price; high or low rent is the effect of it." But he is really incorrect, because he does not include in rent the differential gains that take the shape of extra wages or extra profit. So important are the latter that Walker confined the word profits to this sort of differential gain; and then could say: "Profits do not form a part of the price of manufactured products." (*Political Economy*, 3rd Edit. p. 239.)

Students who care to work out this discussion will find much material in Marshall, Book V. chs. viii. and ix.; and in the four chapters on rent and profits in Macfarlane's *Value and Distribution*.

CHAPTER V.

INTERNATIONAL TRADE

§ 1. **Reasons for Treating International Trade separately.**—Let us begin by making clear what we mean when we speak of *international* or *foreign trade*, as distinct from domestic or home trade. The essence of such trade is to be the occasion of the passing of goods or persons over the frontiers of a country. The meaning of a country and a nation we have already seen (*supra*, p. 42), how the world is divided into different regions of considerable size, and separated in fact if not in law by considerable political distinctions. Every such region is a country, the inhabitants form a nation, and they desire or ought to desire that their country abound in riches and inhabitants, in strength and virtue.

Now the difference between international trade and home trade is that in the home trade the net gain, however shared between different traders or purchasers, is a national gain; whereas in foreign trade this gain may go partly to foreigners, and it is possible, as we shall see, that the trade, if we reckon indirect effects, may be carried on at a national loss. Thus foreign trade may on the one hand give much greater national gain than the

home trade, and on the other hand be no national gain at all. And further, from its very nature, foreign trade is bound up with politics; the mutual intercourse of traders makes known the manners of their countries, foreign tastes and fashions may follow foreign goods, and if such trade grow large, then whether for good or for evil, one country becomes bound up with the fortunes of another, and whether retaining its political independence, or sinking to be a dependency, or rising to be the mistress of dependencies, its national self-sufficiency is at an end. This then is the ground for making a distinction between home and foreign trade, namely, the *political* ground. No other is valid.

§ 2. **Mistaken Reasons: Professor Bastable's restatement.**—Quite different is the view of the classical political economists, and seems to have arisen as follows. The assumption of there being an equal rate of wages and profits, found in germ in Adam Smith, was developed by Ricardo, and made the foundation of a theory of prices. But the assumption was so obviously wrong if applied to two different countries like England and France, that for international trade a different theory of prices had to be constructed. So, while prices in the home trade were explained on the assumption that labour and capital within a country were perfectly fluid, like water in a basin, prices in the foreign trade were explained on the assumption that labour and capital never flowed from one country to another, no more than water from one basin into another.

It is an improvement on these older theories when Dr. Sidgwick gives one common theory of price for home and foreign trade, provided the places trading are "distant." But then this theory lays too much stress on one element of cost, namely, that of bringing to market from a distance; and assumes a local mobility of labour and capital that in reality does not exist.

The Ricardian theory has been brilliantly restated by Professor Bastable (*Theory of International Trade*, 2nd Edit. 1897.) But even his advocacy cannot turn a bad cause into a good one. Thus he is forced by this theory to

alter the meaning of nation, and "for the purpose of economic inquiry" to adopt Bagehot's definition of "a nation in the economic sense—that is, a group of producers within which labour and capital freely circulate." But this seems the wrong method of needless hypothesis already criticised (*supra*, p. 240). And just as it is fruitless to take an imaginary economic man instead of historic men, so it is fruitless to take imaginary instead of historic nations. In reality there is the greatest diversity in the mobility of labour and capital, both between nations and within nations, in the permanent or temporary movements of men and goods. Nationality is no doubt an important barrier to such movements, but it is not alone nor insurmountable. In the eighteenth century there were barriers between one part of England and another, or one part of France and another, as hard to pass as those that now separate the men of Kent from the men of the Pas-de-Calais. At present there is less movement between some parts of Italy and others, than between some parts of Italy and Argentina. British civil engineers are found all over the world; the higher commercial class of Western Russia is mostly made up of Germans; the railways of Switzerland are not made by Swiss, but by Italians; the harvests of East Prussia require Poles from across the Russian frontier to reap them, like those of Southern Texas require Mexicans from over the Rio Grande; and British capital "flows" as freely to South Africa as to East Anglia.

It seems, then, better to construct a theory of prices, both market and non-market, which shall be applicable equally whether the goods and the traders are native or foreign, rather than to construct two theories of prices, one for home trade and one for foreign trade, and both admittedly hypothetical.

Nor is any ground for the distinction to be found in the principle of comparative advantage (or law of comparative cost). For as we have seen (ch. i. of this Book), it applies to all trade, and thus cannot be peculiar to international trade.

Nor again in its essence is the "equation of indebtedness" between "England" and "France" (or rather English traders and French traders) of a different character than the equation of indebtedness between Liverpool and Manchester. Barring bankruptcy, the traders' books in both cases must balance.

True indeed Professor Bastable does not reach this conclusion, because he compares international market prices not (as we should expect) with home market prices, but with private or personal prices, when two individuals strike a

bargain; and he reasons as though "a large number of persons on each side" were only to be found in international exchange, and as though home market prices were non-existent.

So the conclusion of Cliffe-Leslie (*Essays*, p. 332) and of Ruskin seems correct, emphatically expressed by the latter: "International value is regulated just as inter-provincial or inter-parishional value is. Coals and hops are exchanged between Northumberland and Kent on absolutely the same principles as iron and wine between Lancashire and Spain." (*Munera Pulveris*, ch. iv.) And the same thing substantially is said by Professor Nicholson. (*Polit. Econ.* ii. p. 292.)

We can thus adopt Professor Bastable's classification in an earlier work: "All commerce comes under the head of international, which is carried on between persons resident in different political entities or units, even though—as in the case of England and India—they may stand in the relation of ruler and subject." (*Commerce of Nations*, p. 5.)

§ 3. **National Advantages from Foreign Trade, and Drawbacks.**—First there is the political gain that trade is often an engine of empire, whereby the national dominion over lands and peoples is extended. If trade often follows the flag, the flag often follows trade, as seen by the example of successful trading countries, such as mediæval Germany, Venice, Portugal, Holland, Great Britain, the modern German Empire, and Russia. The battleship or battalion follow the trader, and the national instinct for dominion and expansion is gratified. (Cf. Nicholson, *Polit. Econ.* ch. xxiv. on Chartered Companies.) And apart from actual extension of dominion, there is a great increase of national power with the increase of wealthy, energetic, and capable merchants, with knowledge of foreign countries and with wealth in forms that can easily be turned into money. The rapid mobilisation of fleets and armies presupposes mobile property.

Where a country has many of these merchants its trade has been called *active foreign trade*, as distinct from *passive foreign trade*, where a country merely receives foreign traders, just as recently in the interior of Africa the trade of the negro States was passive, that of the Arabs who visited them was active. "The mediæval trade of England was for a long time principally passive; but after the middle of the fourteenth century it became largely active. In 1350 there were in England only 169 rich merchants engaged in maritime trade; and in 1550 there were over 3,500." (Nicholson, *Polit. Econ.* Vol. II. p. 241.)

But conversely, foreign trade may bring loss of political independence; and also where foreign trade is very extensive, warfare brings a risk of tremendous losses that would be absent or less in a self-sufficing country.

Secondly, moral and intellectual culture may follow in the wake of trade. The different mental qualities and acquired knowledge of different nations act as supplementary to one another, and civilisation is fostered by inter-communication; whereas mental stagnation is the likely result of isolation. There is indeed another aspect of communication. Falsehood can be imported as well as truth, evil habits as well as good; and the nineteenth century has too often witnessed how poor barbarians have been taught all the vices and none of the virtues of civilised life.

Thirdly, many useful things are brought into a country by foreign trade that otherwise could not be obtained there, or but scantily. Great Britain, for example, receives gold and silver, tea and coffee, spices and wine, cotton and indigo, Oriental fabrics and porcelain. But conversely, owing to the tendency to misdirected consumption, foreign trade may introduce useless or mischievous merchandise.

Fourthly, by means of foreign trade many useful things are brought into a country that could be obtained there, but only at greater *public* cost of production than is expended on the goods sent abroad in exchange for them; so, for example, timber and sugar, hides and wool, are imported into Great Britain.

Fifthly, by means of foreign trade a greater concentration of labour and property in certain industries is rendered possible; and the nation gains in consequence to a greater degree the advantages of more concerted labour, more localisation of industry, more production on a large scale: all explained in Bk. I. ch. v., and which, as applied to nations, has been called by Torrens the territorial division of labour.

But conversely, the advantages of concentration and localisation may be preoccupied by the foreigner, leaving the home country with no opportunity for elaborate organisation of industry, and left as a mere exporter of raw produce.

§ 4. **Mill's Mistaken Criticism of Adam Smith.**—The fourth and fifth advantages can be combined by saying, that foreign trade allows the resources of a country to be developed to the greatest advantage of the inhabitants. Adam Smith expresses this truth by saying that the surplus produce of a country must be sent abroad for something in demand at home, else such surplus would be of no value, and soon cease to be produced. The industry for the production of this surplus is therefore encouraged by the merchants who export the produce, and but for the export a country could not reach the degree of opulence for which it seems naturally destined. (*Wealth of Nations*, Book II. ch. v.) And most truly, if there were no purchasers of the cotton and iron manufactures of Great Britain outside the island, the wealth and population of this island would be much less than at

present. Adam Smith's phrase, therefore, of the need of finding "markets" for our "surplus" national produce, seems a good phrase, and to describe the actual efforts of all commercial nations, and the actual scramble for dependencies whose inhabitants may be made the purchasers of the manufactures of the ruling country. Mill, however (*Political Economy*, III. ch. xvii. 4), raises two objections to the phrase: one, that it plainly implies an inherent necessity to produce—but this is not Adam Smith's meaning—the other, that absence of exports implies loss of productive power—and this is correct. Mill's mistake is in imagining a definite amount of capital which must be employed in any case. So when he lays down that a "country produces an exportable article in excess of its own wants . . . as the cheapest mode of supplying itself with other things," one aspect only of international trade is put before us as the whole, and nothing is said of the turning to the utmost account every source of wealth in a country, which international trade may promote; no explanation is given of facts such as that to which the traveller, Mr. Wells, bore witness, of the apathetic, listless lives of many of the inhabitants of the interior of Brazil, simply from lack of a market for their surplus produce: they lacked a stimulus for energy, and the great riches of the land lay undeveloped.

§ 5. **Distribution within a Nation of the Gains from Foreign Trade.**—The gains from international trade, whatever they may be, are distributed within the nation, but the manner of their distribution is very complicated, and it is very hard to tell who gets them. For the imports may be sold at market prices, monopoly prices, customary prices, or legal prices; and the same price will give a different gain to almost every dealer and almost every final consumer. We can only reckon roughly that the consumers of the particular merchandise imported, and the producers of the particular merchandise exported, and thirdly the carriers in and out, are those to whom foreign trade is of particular advantage. But any attempt to measure accurately the

total national gain from international trade is idle; for that gain is mainly dependent on public costs of production, and these costs, as we have already seen in the second chapter, refuse all precise measurements; not to speak of the complications introduced by the possibility of misdirected consumption being increased or lessened by international trade.

In the last section of his *Leading Principles*, Cairnes justly lays stress on the impossibility of accurately measuring the gain on foreign trade, or the loss if it were cut off, the loss, for example, if our tea trade were cut off, and no more tea could be had in England for love or money.

§ 6. **Proportional Gain of Different Nations.** —The proportion of the gain from international trade that falls to each nation can in like manner only be reckoned with great vagueness. No doubt where acute and eager traders of one nation deal with unorganised peasants or craftsmen of another, the lion's share of the gain will fall to the first nation. Much of the trade of Europeans with the natives of Africa, and some of Asia, is of this character. As some writers express it, *active* foreign trade is far more profitable than *passive*. But where Greek meets Greek, for example, in the trade between England, Holland, Belgium, Germany, France, and North America, it seems impossible to prove that any one of them habitually gets more gain from their mutual trade than any other.

True that if there is an unusual demand for particular articles, as for warlike stores in America when the Civil War broke out, the nations supplying those particular articles will get the best of the bargain; and *vice versa*, if there is an unusually large offer of goods for export. But such cases, being occasional, not habitual, are no real exceptions to the

rule. There is indeed a real exception in the case of a monopoly. If a country is the sole producer of certain goods, it may levy a tax on foreigners by an *export duty*, and habitually get the largest share of the gain. The fine kind of opium grown in India and the tax on its export is a case in point. In the still more exceptional case of what has been called a *consumer's monopoly*, that is, where a particular article is only demanded by one country, the Government, by imposing an *import duty*, may levy a tax on foreigners, and the country habitually get the largest share of the gain. But in general we may apply Professor Bastable's dictum on import duties, to the whole matter of how the grain is divided between the trading nations (seeing the different interests of different classes of producers and consumers in different countries), and say, "Explanation is difficult, prediction well-nigh impossible."

§ 7. **International Balance of Indebtedness.**— This phrase, or the *equation of indebtedness* or *balance of trade*, are applied to express the debtor and creditor account between nations. Exported goods, till paid for, cause a debt to be due to the exporting country; and *vice versa* for imported goods, as is obvious; and it might be thought that, taking one year with another, exports and imports would be equal to each other. On the contrary, in most trading countries there is a persistent divergence, the exports being either habitually more than the imports, as in most colonial and dependent countries, or habitually less, as in England, Germany, Belgium, and France. The reason is that besides imports and exports, which are the main grounds of indebtedness, there are other very important supplementary grounds.

In view of the confusion of Mill and other writers on this matter, let the reader be warned that it is only an abbreviated and metaphorical form of speech to say that France owes England anything, or England France. The English Govern-

ment may have claims on the French Government, or *vice versa*, and certain English merchants may have claims on certain French merchants, or *vice versa;* but neither England nor France are beings that can keep accounts or appear in law-courts; and the phrase French or English indebtedness only means the sum of a quantity of individual and independent accounts between a multitude of Englishmen and a multitude of Frenchmen (Nicholson, *Polit. Econ.* II. p. 275), including the accounts of the two Governments if they have any claims against one another.

§ 8. **Supplementary Grounds of International Indebtedness.**—*First*, borrowing on the part of individuals, corporations, or the Government of one nation from the inhabitants of another In such cases the principal of the loan goes out in the shape of exports, the interest comes back in the shape of imports. Hence, *ceteris paribus*, while the creditor country is lending, its exports exceed its imports, and *vice versa*, while it is receiving the interest or repayment; and obviously the higher the interest, the greater the subsequent excess of imports into the creditor country.

Secondly, remittances received by rich travellers or absentees from their property, as well as by those in fleets or armies abroad. In such cases the country where they are travelling, or domiciled, or stationed, receives imports without any exports to balance them. Under this head also must come donations such as the large sums sent by the Irish in America to Ireland.

Thirdly, tribute from foreign countries, often veiled in modern times by taking the shape of salaries of the civil and military officers of the ruling country, paid out of taxes levied on a

dependent country. Such income, as far as remitted home, gives the home country imports without any exports to balance them. A war indemnity acts in the same way.

Fourthly, commissions, brokerage, freight, pilotage, harbour dues, marine insurance, and other similar payments received from the inhabitants of other countries for commercial work done for them by bankers, brokers, shipping merchants, and other agents. Such payments ultimately take the form of the commercial country receiving imports with no exports to balance them.

How important may be the gain, under the second head, from tourists, can be seen from the estimate that £8,000,000 a year are received from foreign visitors by the Swiss, and from £15,000,000 to £20,000,000 by the Italians. And these figures indirectly show how great a loss is inflicted on a country by absentees. In recent years England is a classical example of a country receiving a vast excess of imports under the first, third, and fourth heads given above. This fourth ground of indebtedness has been called by Sir Robert Giffen "invisible exports," and the receipts in exchange for them reckoned for 1898 at some 88 million pounds, of which the earnings from ships came to 70 millions, and commissions of all kinds to 18 millions. The total receipts under the other heads may perhaps be reckoned for Great Britain at some 92 millions; and thus the annual excess of imports into this island over its exports has reached the immense sum of 180 millions. Under the second head, indeed, there is a large export on account of English travellers, soldiers, sailors, and others abroad; yet this is many times outbalanced by the imports on account of the immense number of residents in England, especially in London, who draw their revenue from their estates in our dependencies or colonies.

In recent years British India is a classical example of a vast excess of exports by the payment of interest, of tribute, and of commercial payments, under the first and the two last heads given above.

The official statistics, both British and Indian, are unfor-

tunately misleading, because the imports are reckoned *plus* the cost of carriage, but not the exports, which thus appear less in relation to the imports than they really are. Both ought to be reckoned either at the point of departure, or at the point of arrival; otherwise the cost of carriage is reckoned for the one but not for the other. We must also remember that the returns of custom-houses cannot in any country be implicitly trusted, and in some countries are very delusive. If there are custom-duties, then there is a strong motive to understate quantity and value; if no duties, then a likelihood of carelessness. And still greater is the variety in different countries of the amount of contraband imports and exports. Hence all figures of international trade are to be taken with great caution.

Bankruptcy may affect imports and exports. If the law of a country is such as to make bankruptcy easy, a certain amount of foreign goods will be got hold of, that probably will never be paid for. Similarly, repudiation of debt by municipalities, provinces, or states may alter the relations of exports to imports. Only remember that some loans have been made in such manner, that total or partial repudiation is a less evil and injustice than continuing to pay for them.

The part played in the settling of indebtedness by the commercial mechanism known as the foreign exchanges, will be described in a later chapter.

§ 9. **The Question of Free Trade versus Protection.**—If we have rightly apprehended the nature of international trade and its advantages and drawbacks, the question of what is called free trade *versus* protection ought to be easily determined; not indeed the question whether any particular country like Germany or New Zealand should adopt any particular policy, for these practical issues are often most complicated and difficult, but the general principles which each can apply to the particular circumstances of his own country. *Protection* in the present discussion means the giving by Government to home producers an advantage over foreigners, either by placing an import duty on foreign

produce as it comes into the country, higher than the taxation laid on similar home produce; or else by giving the home exporters a donation (usually called a bounty or bonus) in addition to what they can earn commercially. And *free trade* in the present discussion means the absence of any such Government-granted advantage.

In particular cases it may be disputed whether protection is being given or not: whether a given import duty is, or is not, merely an equivalent to the home excise duty; and whether a "drawback" (the term used for the repayment of previously paid duties) is, or is not, merely compensation to the exporter for excise duties already levied on the article to be exported, or for custom duties already levied on its raw material. But the main issue of free trade *versus* protection is not affected by these disputes on matters of fact.

Although protective duties have attracted most attention, bounties are scarcely a less potent agent of protection, though often not called bounties nor even recognised as such. The most conspicuous were the bounties on the exportation of sugar granted by the Governments of France, Germany, Belgium, Holland, and the United States. But the support given by many Continental Governments, notably in Wurtemberg and Bosnia, to elaborate technical schools, is in great part of the nature of a bounty. Similarly the bonus of £2 an acre granted in Victoria for the cultivation of flax, and £5 a ton for its manufacture; the bonded *depôt* in London established by the South Australian Government to foster the sale of Australian wine; the Queensland guarantee of interest from the Central Sugar Works fitted with costly machinery; the Canadian contribution of 200 million dollars towards railway construction that grain might reach the coast at least cost; and (an example of a different complexion) the large subsidy granted by the Government of British Guiana toward the importation of coolies bound to work for a term of years on the sugar plantations. Again, it was practically a bounty granted out of public money to the mill-owners of Lancashire and Yorkshire during the first part of the nineteenth century, when workhouse children brought up at public expense were supplied to them in vast numbers, giving them cheap, unresisting labour which they could use at their discretion.

§ 10. **Four Valid Grounds for Protection.**—Now dismissing a quantity of invalid grounds urged in favour of protection, the following grounds appear valid, not anywhere indeed, but wherever the conditions exist that render them applicable.

I. Acclimatisation of Industries.—If a country lacks certain industries for which it is physically suited, say the manufacture of woollen cloth, leather, and pottery, and is supplied with them from abroad, a protective duty levied on the importation of these goods will call into life the manufacture of them at home, and utilise the productive power of the country. True that the encouragement of these industries will be *ipso facto* a discouragement to the production of those goods, say oats, butter, and live cattle, that were exported to pay for the woollens, leather, and pottery. But our hypothesis is that the new industries are "suitable." Hence the diversion of national industry will result in a larger net return after the first difficulties are got over, the workmen collected and trained, the kindred and auxiliary trades set up, industry properly localised, and on a scale large enough to allow the full application of concerted labour and the advantages of the law of increasing returns; moreover, a secure body of customers acquired (business connection), and the *vis inertiæ* rolled away by the expectation of certain profit. All this being once accomplished, and who can say when without protection it would have been accomplished, the new industries will give a gain much greater than the loss in the old industries. For remember that only the less efficient

and commercially weaker growers of oats, breeders of cattle and dairy farmers will be driven from the market, like groups E, F, and G, in the figure on p. 229, but not A, B, and C. Again, we must not reason as though a nation was an individual with strictly limited capacities of production and consumption; for nations wax and wane in their numbers and wealth, and consequent powers of industry. Now protection in the case supposed is not unlikely to attract immigrants or to prevent emigration by affording a new and congenial occupation and a secure market. Hence there may be little or no discouragement of the old industry, but foreign artisans and manufacturers may come flocking in and take as their labourers and apprentices those who else would have found no employment at home.

This first reason for protection is sometimes called the *infant industry argument*, but is best called the *backward industry argument*, applicable alike to cases of immaturity and of decay. It is of irresistible force, always supposing the conditions observed that make it valid. And it is incidentally confirmed by the almost universal practice of nations, who, when politically able, have constantly adopted this method for their enrichment.

The opposing argument often heard that protective duties once put on will never be taken off again, sounds strangely in England where this very thing has happened. The only real question is about the "fitness" of the industry that is absent or stunted; and on this point indeed, as it depends on particular matters of fact, there is room for abundance of discussion, and need of much local and technical knowledge. And the mere knowledge of physical geography is not enough; for certain industries for which a country is not much favoured by nature, may yet be desirable and therefore "fit," in order to serve as a means of national, artistic, or intellectual development, and by giving a great variety of employment to allow none of the talents of the inhabitants to lie fallow and to force none to quit the country for lack of an employment

that is congenial. This argument is sometimes put separately as the promotion (by protection) of diversity of industry.

Examples.—It seems likely that when a heavy duty some years ago was laid on the importation of manufactured tobacco into Canada, the labour and capital employed in the tobacco factories which quickly sprang up, would in great part have never come to Canada, or would have quitted it. Indeed, it was reckoned some twenty years ago, that half a million Canadians were in the United States who might have remained in Canada had protection been introduced earlier, and a choice given to enterprising young men to do something else than follow the plough. (D. McCulloch, *Fortnightly Review*, May, 1879.)

A recent and striking example of acclimatisation is that of the tin-plate industry in America, which was entirely in English hands and a vast trade done, till the McKinley tariff of 1890. The inclusion of tin-plates in the tariff was strongly opposed by various manufacturers (as canners) interested in tin-plates being cheap. But they were included, subject however to the condition that within five years the American manufacturers should get two-thirds of the trade in their hands. Then, in the words of a most competent American witness (the Hon. Robert B. Porter, reported in the *Daily News*, September 27th, 1899): "Our manufacturers began erecting plant on a large scale; automatic machinery was put in wherever possible, and processes done in England slowly by hand were there done wholesale, . . . the trade that was left in English hands . . . has now wholly passed from them, and our canners are to-day able to buy their tin-plates cheaper from American manufacturers, notwithstanding the tariff, than they formerly could from the English. The consumers themselves now confess the benefit of the change." For other examples see Ashley, *Tariff Problem*, 1903, pp. 75—79.

§ 11. **II. Preservation of Existing Industries.**—If an existing industry, really suitable to a country, is threatened with ruin by foreign importations, it is plain from the foregoing reason that such industry should be protected: but not plain how such a case could occur. For *vis inertiæ* is here on the side of the home producers, the difficulties of change lie with the foreigner. Yet in several ways the case can occur. Thus through the action of misdirected

consumption, explained in Book I. ch. iii., by which good merchandise is driven out by bad, solid and suitable home goods may be supplanted to the public loss by flimsy, showy, unhealthy foreign goods, unsuited to the climate and circumstances; and the increased exports of some other merchandise to pay for these new imports, is no adequate compensation, and the national industry is diverted from more to less advantageous production. Indeed the loss may sometimes be a frightful injury; such as the introduction of European spirits into Africa, which is free trade in disease, demoralisation, and death. Again, as Dr. Sidgwick has pointed out (*Political Economy*, III. v. § 2), an extraordinary *temporary* advantage in production possessed by a foreign country may destroy or greatly injure a suitable home industry; and then when that great advantage is past and gone, the cost of restoring the lost or lessened home industry, may far outweigh that previous gain of the cheap imports.

Some think that an instance of this is the injury to the wheat cultivation of Western Europe by the imports of wheat from the new lands of America cultivated exhaustively; and that when that sort of cultivation ends, as all exhaustive cultivation must, the national costs of renewing the corn farms will exceed the temporary national gains through the low price of corn. *See* APPENDIX J.

Another instance may have been the ruin of the Indian hand-loom weavers by British manufactures. The latter had been themselves, as long as they needed it, protected in the eighteenth century against Indian cotton goods. But the inventions of Hargreaves and Arkwright with the development of steam power shifted the advantage to Great Britain, all the more because British manufactures were receiving a bounty in the shape of children's labour (already noticed) provided out of the rates; not to speak of the overwork and underpay of adults, to whom combinations were forbidden

and who were sheltered by no factory laws. Hence "two generations of Indian weavers, numbering many millions of artisans and their women and children, slowly starved. The higher classes of them were forced out of their hereditary employment, and compelled to seek a subsistence as cultivators in already overcrowded districts, or drifted hopelessly as landless labourers. The workers in coarser fabrics could just cling to their looms on starvation wages, perhaps eked out by a plot of land. By the middle of the present century this process—in reality one of the great tragedies in the industrial history of modern times—was nearly completed." See the history of the Indian Cotton duties in the *Times*, March 12th, 1894, by a witness all the more unsuspected because holding this tragedy to be due to "economic laws" for which no one was responsible. *See* APPENDIX K.

§ 12. **III. Political Security.**—National safety may require the home production of all the requisites of warfare, and such measures as may avert the risk of an enemy being able, by shutting off the importation of food or some other necessary, to starve their opponents into submission. A similar preference for "consideration of power," over "consideration of plenty" (to use Lord Bacon's phrase), is the ground for bounties on shipbuilding and the prohibition of exportation or importation except in home vessels, in order that the number of the nation's sailors and ships shall be increased. Such *navigation laws* like those in force for a century and a half in England, may be efficient where other nations have not the power or the opportunity of doing the same.

Undoubtedly if some trade is requisite for our safety, and as was said of the craft of bowiers in the reign of Richard III., is "sore diminished and likely to be utterly undone" by the unrestrained operation of foreign trade, then some kind of protective laws are needed lest the land be thereby "greatly enfeebled to the great jeopardy of the same, and the great

comfort of the enemies and adversaries thereof." (Cunningham, *Industry and Commerce*, Vol. I. p. 389, or p. 433, edit. 1905.)

At present, serious attention is being given to the risk of the food supply of Great Britain in case of a maritime war, and proposals are made for national wheat stores. Now, *supposing* they were needed, and their cost, as probable, at least a million a year, the question would arise whether the same end could not be reached more cheaply by some form of protection. And even now, a part of the expenses of the navy must be put to the account of free-trade, witness the following advertisement: "Two-thirds of the food we eat, the bulk of the raw materials used in our manufactures, and our commerce valued at £1,750,000,000 are borne upon the ocean. To protect these a supremely powerful navy is indispensable. Join the Navy League, 13, Victoria Street, S.W." (*Times*, March 12th, 1897.)

Observe that the right measures to be adopted for famine prevention, discussed in Book I. ch. vii., may have a protectionist character, and then can be put under this head or the next. But in general the "protection" of the poorer classes against famine takes other forms than "protection" in the narrow sense of the present discussion.

§ 13. **IV. Social Peace and Fair Distribution.**— Social harmony is a good of incalculable value: its injury is among other things one of the greatest injuries to national wealth. Now under certain circumstances protection *may* be needed to prevent changes in the national industry and a consequent break up of a happy and harmonious constitution. A secure and steady market may be essential to an organised industry and to the proper insurance of the poorer classes. Hence the apparent loss by the exclusion of foreign goods may be outweighed by the real gain of steady habits, sober profits, and mutual good-will.

So the happy, healthy, and highly cultured peasantry of Northern Portugal, described with intimate knowledge by the English consul, are protected by a tax equivalent to 12*s.* 6*d.* per imperial quarter on maize, with corresponding taxes on

other grain. (Oswald Crawfurd, *Round the Calendar in Portugal*, p. 39.) If these duties were removed, it is probable that the peasant farmer class, seven-eighths of the whole people, would be grievously impoverished, and their loss not balanced by the gain to the manufacturing class as consumers. As a fact this class is also protected in Portugal by heavy duties on imported goods; and this double protection with consequent high prices becomes as Mr. Crawfurd observes (p. 41), a tax on the *rentier* class, on those, namely, who live on an income which their own labour is not at the moment engaged in earning.

Professor Nicholson rightly urges how difficult is the reckoning of loss and gain when some great industry suffers from foreign competition. "If a million people lose their regular employment, or are converted from skilled into unskilled labourers, who must wander over the land seeking for occasional and badly paid jobs, the fact that thirty millions of people get some article a trifle cheaper may be of small concern relatively." (*Political Economy*, II. p. 326.)

§ 14. **Application to Oppressed Workpeople.**—In like manner it is the duty of all nations to introduce this much of protection, that wherever it is seen that the low prices of certain goods are due in great measure to their being produced by miserably underpaid workpeople—that they are the fruits of "sweated" labour—then the importation of such goods should be checked by a high duty, lest this unnatural and iniquitous cheapness be fostered abroad and imitated at home. The Germans have for many years laid stress on this danger and have called a protective duty that would check it *ein socialer Schutzzoll*.

Recently, attention has again been called to the matter by S. and B. Webb. (*Industrial Democracy*, Part III. ch. iii. d. e. and Appendix ii.) Extending the term bounty to negative action of the Government, they point out how "parasitic" trades are receiving a bounty, viz., trades in which by bad conditions and underpay the workers deteriorate in industrial efficiency, with the consequence that these trades receive a subsidy in some manner by men or money provided from outside to keep up their labour force. This being so, "if the employers in some trades can obtain labour partially subsisted from other sources, or if they are free to use up in their service . . . the capital value of successive relays of deteriorating workers, they may well be able to export more cheaply than the self-supporting trades, to the detriment of these and of the community itself." (p. 864.) "To put it concretely, England might find its manufactures and its exports composed, in increasing proportions, of slop clothing, cheap furniture, and

knives, and the whole range of products of the sweated trades, to the detriment of its present staple industries of cotton and coal, ships and machinery. In the same way every other country might find its own manufactures and its own exports increasingly made up of the products of its own parasitic trades." (p. 866.) This indeed can only happen so far as in *different* countries *different* trades are parasitic.

§ 15. **Summary on Free Trade and Protection.**—If none of the four reasons for protection are present in a particular country, then the unrestrained freedom of importation and exportation has a strong presumption in its favour. And where there is protection, it ought to extend only as far as these reasons justify it, and no farther. Hence to protect two or three industries and not all or many, is no illogical half-measure, but has a presumption of being reasonable. And reason tells us that a small country, especially one like Denmark or Holland lacking variety in soil, will find it hard to gain the advantages of protection; that small countries however may gain some of these advantages by joining a *Zollverein* or customs union; and that the larger the area under the same protective duties, and the nearer its shape approaches a circle, the shorter proportionately will be the frontier to be guarded, the less costly the enforcement of the duties.

The sea must be a frontier and a customs barrier in any case. Hence the imposition of protective duties in an island creates no fresh barrier. So if Ireland and Scotland both adopted protection, no fresh custom-houses would be needed in Ireland, whereas in Scotland a new barrier would have to be set up along the river Tweed, the Cheviots, and Liddle-Water.

Obviously also goods that are easily hidden are easily smuggled; whereas there is no evading custom duties on

bulky goods such as raw cotton, hides, wool, corn, meat, dairy-produce, timber, iron, and machinery.

Moreover, granted protection, the best method of protection is not always the same. A distinguished French economist, M. Gide, strongly recommends, instead of custom duties (*droits à l'entrée*), the use of bounties (*primes*), as being straightforward, easily graduated, no hindrance to commerce, no hindrance to production, because not raising the price of raw materials, and capable of stimulating efficiency by being made conditional on a high standard of equipment.

Further, from the nature of the four reasons given above, it is plain that whether the circumstances justifying protection are present or absent, depends on the state of civilisation and on the moral qualities of the inhabitants, as much as on the physical condition of the land. If then we have comprehended how mental and bodily action are inter-dependent, how moral and material influences are intermingled, how the problem before us is complicated, how hard it is to pass from the abstract idea of "a country" to the concrete case of England and Ireland, or Canada and the United States, or New South Wales and Japan: we shall resolutely refuse to make any sweeping assertion that either free-trade or protection is absolutely *semper et ubique* the true doctrine and right course. Such assertion would be unscientific and unhistorical.

§ 16. **"Imperial Free Trade" and "Fair Trade."**—It follows that what is sometimes called *imperial free-trade*, namely, the absence of customs barriers between any part of a great empire, though implying differential duties against outsiders, and so far being protectionist, is not the same thing, though called by the same name, as protection in a small country, or in one even as large as France or Germany. Thus when we say that the United States and Russia are protectionist, we must remember that this "protection" implies "free-trade" over three millions of square miles and among seventy-five

millions of people in the United States, and still more in the case of Russia; and these vast numbers over these vast areas are linked together by the common bond of preferential treatment of home goods in the home markets.

Observe that the phrase "imperial protection" can be used to mean exactly the same as "imperial free-trade;" and that we must be careful to ascertain in each case what is really meant by those who use such phrases.

The term *fair trade* is also of dubious meaning. It is indeed defined in Palgrave's Dictionary as "commerce on which no restriction is imposed by either party, or on which equal restrictions are imposed by both;" and thus reciprocity is made essential to the notion of fair. But more than this is generally meant, and not simply the abolition of what the fair-traders call *one-sided free trade*, namely, where a free-trade country like England deals with a protectionist country like Germany. For they by no means wish to use retaliation merely to induce other countries to adopt free-trade; witness the following four points of the programme issued by the Fair Trade League: (1) Raw materials of manufactures to be admitted free; (2) Food from foreigners to be taxed: food from colonies to be free; (3) Tea, coffee, fruit, wine, tobacco, and spirits to be taxed ten per cent. higher when from foreigners than when from colonies; (4) Import duties to be imposed on the manufactures of foreigners who impose import duties on our manufactures. Clearly only the last has any connection with reciprocity or "fairness;" the others are meant to encourage national or imperial industry; and there is some justification for an extreme free-trader like the late Sir T. H. Farrer looking on "fair trade" as "but a shuffling name for protection." (*Free Trade v. Fair Trade*, 3rd Edit. 1886, p. 102.)

It seems therefore that the term "fair trade" is unsuitable for scientific purposes; and that if formerly a necessary euphemism to avoid arousing fanatical opposition, there is no longer any such necessity.

§ 17. **Free Trade and the Laws of Diminishing and of Increasing Returns.**—These laws have been used in this discussion, first as an argument in favour of free-trade for agricultural produce, and later as an argument in favour of protection for manufacturing produce.

It was assumed that the law of diminishing returns applied only to agriculture, and that the Ricardian theory of rent was true; and then it was argued (as indeed followed from these premises) that the corn-laws were a tax on the country for the benefit of the "landlords," or rather, were worse than a simple tax; for by compelling recourse to inferior lands, the community lost more than the landlords gained. These corn-laws

are fairly described by McCulloch in his *Note X.* to his edition of the *Wealth of Nations*; and their chief features, amid frequent alterations, were a heavy or prohibitive import duty on wheat when below a certain price, and generally also a bounty on its exportation; the suspension of both the import duty and bounty when certain prices were reached, and sometimes also a prohibition of exportation.

Whether these laws had the effect of raising prices generally attributed to them is highly dubious. Had they continued in the days of developed steam communication and cultivation of virgin soils by machinery, they would have so done; but as it was, the average price of wheat in England during the twelve years that followed their total abolition was no lower than in the twelve years that preceded the first breach in them.

But leaving these questions of fact, let us observe that the very theory on which the condemnation of the corn-laws rested has served as a justification of protection if applied to industries which obeyed the law, not of diminishing, but of increasing returns; and the tables have been turned. Thus Professor Marshall, combining the action of these laws with his doctrine of consumer's rent or surplus (noticed above at the beginning of ch. iv.), indicates a theory of taxing commodities that obey the law of diminishing returns, and giving a bounty to those that obey the law of increasing returns. (*Principles*, pp. 528—536.) Somewhat similarly Professors Patten and Loria urge that to export food and other raw materials is like an artificial increase of population, tending to bring worse soils into cultivation and raise the price of food to the advantage of the landlords and the injury of the community. (See Bastable, *Theory of International Trade*, pp. 105—107; and *Commerce of Nations*, pp. 147, 148.) And the possibility of this happening is recognised by Dr. Sidgwick. (*Polit. Econ.* pp. 497, 498.) Observe that in trying to answer this argument for protection, Professor Bastable puts in a plea that avails just as much for agricultural protection as for free-trade, namely, that where landed property is widely distributed and freely circulates, the increased rent will be divided among a large part of the population. For this would have been a defence for the English corn-laws had England, like France, been a country of small proprietors.

The true comment on these arguments is, that like the tedious and intricate discussions on the "pure theory" of international trade, they are fruitless, and mere "scientific toys." We have seen that the laws both of diminishing and of increasing returns apply to both agriculture and manufactures (Bk. I. chs. i. and iii.); and we have seen that the Ricardian theory of rent is illusory. Hence the arguments,

both those hostile and those friendly to protection, are illusory, which are founded on any sharp distinction of industries, according as they obey the law of diminishing or of increasing returns.

§ 18. **Curious Character of the Free Trade Controversy** — A word of explanation is needed of the belief still common in Great Britain that the truth of the theory of free-trade and the expediency of its practice are as certain as the propositions of Euclid. Dr. Sidgwick has noticed this fact (*Political Economy*, p. 487); and a leading newspaper and statesman have expressed the belief and its consequences as follows: "This is the grand antinomy of commerce. Under all political systems fair trade theory remains incredible to trained thinkers. Under every known political system free-trade practice is rejected except by the Englishman and the Turk." (The *Times*, November 20th, 1896, on Mr. Balfour's speech on free-traders and fair traders—the latter name being applied to any who advocate any kind or measure of protection.)

Now, if the arguments of the present chapter are right, there is no need to imagine any such "antinomy" or contradiction of theory and practice. Different nations, in different circumstances and different states of growth, require different treatment, and where able to legislate for themselves, have on the whole, and making allowance for human failings, usually adopted the measure of free-trade or of protection suitable to their condition. The chief contradictions appear when one nation controls another; and the treatment then meted out to colonies and dependencies has been often highly unsuitable to them (various examples are to be found in the Fourth Book of the *Wealth of Nations*). But nine-tenths of such treatment has been due, not to economic stupidity, but to political craft.

How then can we account for the violent fanaticism (now in process of abatement) of British free-traders? The main answer is that they have been misled by the classical economists, and the economists misled by the following circumstances: (1) The actual condition of Great Britain during the first three-quarters of the nineteenth century, far ahead of industrial competitors, and thus interested in the greatest possible free-trade; and by her accumulation of wealth and commerce, looked on as the economic model for other nations. Seeing this, the economists thought that what was clearly advantageous to Great Britain must be advantageous to all other nations and at all times. (2) Their theories derived from Adam Smith and the Physiocrats of the equality and similarity of all men, the prevalence of pecuniary motives, and of "economic men" who must in the long run receive "ordinary profit" and "ordinary wages." (3) Their disregard of the

likelihood of one-sided competition, misdirected production, and misdirected consumption. (4) Their disregard of the organic character of nations, of the divergence between the national and the private point of view, and between immediate and ultimate loss or gain, confounding statical with dynamical problems.

This being so, and with the example of Adam Smith's intemperate language on the Mercantile System, they came to think and to say that a Protectionist must be either a knave or a fool. And even now, so strong is the force of an evil tradition, we find serious writers attributing the prevalence of protection to avarice and ignorance: we might as well attribute the British advocacy of free-trade to hypocrisy and greed; both statements being out of harmony with the scientific spirit.

* * * *

The question of Free Trade *versus* Protection was reopened by Mr. Chamberlain in 1903, and has produced a whole literature of controversy. But I have left the text almost unaltered because I still hold that its reasoning is sound, that the question should be put as it is put above in § 9, and that the answer should be given as given above in § 15. Hence I am in agreement with Professor Ashley and most of the German economists, that no absolute rule can be laid down on free trade and protection, sometimes the one being wise, and sometimes the other; the decision depending on the conditions of each case. (*Economic Review*, July, 1904, p. 266.) *See* APPENDIX L.

CHAPTER VI.

MONEY.

§ 1. **Inconvenience of Barter: Need of a Medium of Exchange.**—The word *barter* means the direct exchange of one article for another without the interposition of a third. But there cannot be much exchange in this way, so great are the difficulties, first to find a man who has got to spare just what you want and who wants just what you have got to spare; and then this absence of *double coincidence* in barter (to use Jevons' phrase), becomes more inconvenient when articles, as a horse, a waggon, or a garment, cannot be divided, and when, as eggs or fruit, they will not keep: your eggs will go bad before you have collected enough to pay for a waggon. If then there is to be much exchanging, if there is to be any market as described in a previous chapter, people must agree on a *medium of exchange*, that is, some one article which every one will take; and if this medium is divisible without loss and is durable, like pieces of copper, the convenience afforded is increased. You can now exchange your eggs for copper by the dozen or half-dozen as your fowls lay them, and when you have collected enough copper, you can buy the waggon you are in need of.

§ 2. **Need of a Measure of Value.**—A medium of exchange once adopted can serve, and generally does serve another purpose, namely, that of a *measure of value*, enabling us to express the value of eggs or of waggons or of anything else, by comparing them with the pieces of copper, or with whatever is chosen as the measure, and to say that a dozen eggs cost two pieces and that a waggon costs two hundred pieces. Value thus expressed by a measure is called *price*, and the convenience of such measurement is immense; for "it is easier to ascertain and remember the relations of many things to one thing, than their innumerable cross relations with one another." (Mill.) Thus if 100 articles are exchanged, including among them the measure of value, we have only 99 relations to keep in our heads, namely, the 99 prices; but without such common measure no less than 4,950 relations.

The medium of exchange and the measure of value need not indeed be the same article. Thus in Denmark after agriculture had succeeded nomad life, they used corn as a medium of exchange, but the measure of value was cattle; later a ton of barley served as the measure and metals as a medium. Commonly, however, the measure of value is either the one or the chief medium of exchange, or at least one among several. A medium of exchange, if a good one, not liable to decay nor to vary much in value, serves admirably as a hoard or reserve for future emergencies, since it will always at any future time be acceptable in exchange. This function is sometimes called acting as *a store of value*. It serves also as a means for determining future obligations, and thus facilitates contracts, the one party knowing exactly what he will have to pay at a future date, and the other party what he will have to receive. This function is sometimes called acting as *a standard for deferred payments*.

§ 3. **Definitions of Money, Currency, and Legal Tender.**—If what has been said on a medium of

exchange and a measure of value is clear, we ought to be able to construct a clear definition of money, and to distinguish it from the terms currency and legal tender.

Money is any exchangeable good which is both a medium of exchange and a measure of value.

Currency is any medium of exchange which is current in a certain region, that is to say, which freely circulates there—which as a rule every one there will take in exchange.

Legal tender is any medium of exchange which every one must by law take in exchange, unless he has previously made a special arrangement to the contrary with the other party to any contract.

According to these definitions the bank-notes of a local banker in an English country town are currency, for every one there will take them; but they are not legal tender or real money. In the same town a note of the Bank of England is both currency and legal tender, for if a man owes me five pounds I cannot refuse such a note in payment; but such a note is not real money, for it does not serve as a real measure of value. Lastly, in the same town a gold sovereign is both currency, and legal tender, and real money.

We need not adopt these definitions of money and currency, but if we do we must never use the phrase "paper money," which would be almost a contradiction in terms. Promises are not the same as performance, and the proper phrase is *paper currency;* or, if we apply the word money to paper, let us always add that it is only nominal or representative, and not real money. And such phrases as "he lost all his money in speculation," or "he sunk a deal of money on his land," or "he would not borrow till money got cheaper," ought rather to be: he lost all his *property*, sunk a deal of *capital*, would not borrow till *loanable capital* was offered at less interest.

§ 4. **Difficulties in Defining Money.**—These are akin to those discussed in the Prologue on the definitions of value and capital, and they arise from the vague and various meanings of the word money in popular discourse. See Dr. Sidgwick's chapter on the definition of money in his *Political Economy*,

Bk. II. ch. iv.; also Professor Nicholson, Bk. III. ch. xi. The definition adopted above is narrower than those generally given; but strictness and narrowness seem desirable, amid the vehement and confused discussions on currency.

The next best course is to adopt a very wide definition, and to make money mean every sort of medium of exchange, as well as all property easily turned into a medium of exchange, all wealth, namely, which is easy to be realised. In this wide sense money would include all property like shares, bonds, and other securities, which can be sold quickly and without depreciation, as distinct from land, mines, factories, machinery, stocks of materials or even of finished goods.

Professor Bastable, following Walker, adopts an intermediate definition, and makes money much the same as what I have called currency, by defining it as "that which passes freely from hand to hand throughout the community in final discharge of debts and full payment for commodities, being accepted equally without reference to the character or credit of the person who offers it, and without the intention of the person who receives it to consume it or enjoy it or apply it to any other use than in turn to tender it to others in discharge of debts or payment for commodities." (*Encyclop. Britan.* 9th Edit. *s.v.* Money.) Professor Sidgwick slightly widens this definition so as to include payment by cheques, and thus puts the words "from owner to owner" instead of "from hand to hand." But these, as well as all the other intermediate definitions, between the very broad and the very narrow, seem to me somewhat arbitrary, and above all to fail to give us the help we need in threading our way through the thorny maze of the "exchanges" and the "money-market."

§ 5. **Different Goods used as Money.**—A great variety of goods in different times and places have been used for money; they may be grouped under three heads:

(1) Cattle, among pastoral nations and those with rude agriculture. In such societies domestic animals were the chief form of wealth, every one could feed them on the common pastures, one beast was pretty much as good as another, and they could be moved very easily. Cattle, therefore, were a suitable kind of money, and could be supplemented

by a currency of wool or skins for small payments. Many of the great nations of the world have had at one time money of this kind, for example the Romans, whose word for money (*pecunia*) records the use of cattle-money.

(2) Miscellaneous goods, such as corn, salt, cubes of tea, dates, codfish, nuts, sugar, tobacco, skins, shells, ivory, even slaves; all which kinds of money have been in use chiefly among rude nations or colonists reduced to a simple life.

(3) Metals, more especially copper, silver, and gold, now universal in all civilised countries, though not confined to civilisation. They have been adopted because pieces of them are durable, divisible without injury, easily carried about, easily stamped and recognised, all of the same quality, in general use for utensils and adornment, of great value in small bulk, and comparatively steady in their value.

They are not perfect indeed: copper is too bulky except for small payments, silver too bulky for large payments, even gold inconveniently heavy for the vast payments of modern commerce, and this is one of the reasons for a paper currency. On the other hand, gold is not bulky enough for small payments: the size of a gold penny, even of a gold shilling, would be ridiculously small; hence the need of supplementing gold money by a currency of silver and copper. Besides the precious metals, if pure, wear away and must thus be alloyed with some harder metal, which brings a risk of deception and the need of precautions against falsified money. We are in danger of receiving in payment a counterfeit sovereign; but the early Romans, with their cattle currency, were in no danger of receiving a counterfeit ox. Above all, although less liable to alter in value than most other things, the metals do alter, and this means that the measure of value alters, a change which, as we shall soon see, brings many evils with it. Still nothing better than gold or silver appears likely to be found to serve as money for the rich countries of the world.

§ 6. **The terms Value and Price as applied to Money: Appreciation and Depreciation of Money.** —Let us now make sure of a difficult point, what are the grounds of the value of money and its expression in price. Thus if in a price list we read that one article is worth 4*s*., another 8*s*., a third 12*s*., we want to know, not why the prices of the three articles are to each other as one, two, and three, but why precisely they are 4*s*., 8*s*., and 12*s*., and not rather 2*s*., 4*s*., and 6*s*., or again 8*s*., 16*s*., and 24*s*.

Observe that to speak simply of the price of money or even of the price of the money-material, as in England of the price of gold, or in India of the price of silver, is liable to mislead. For when we speak simply of price, we habitually mean price in money; and thus to say simply that the price of gold had risen, would be to say absurdly that an ounce of gold was worth more gold than formerly. Again, the phrase often heard in the City of London that "the mint price of gold is £3 17*s*. 10½*d*. an ounce," is a technical term of trade and coining. No value is measured, and all the phrase means is that a troy ounce of gold is coined into 3·89375 sovereigns, or £3 17*s*. 10½*d*. No value is expressed by any price, but the measure of value for the United Kingdom is described. In Professor Nicholson's words: "The mint price is in effect the definition of the weight of a sovereign." (*Polit. Econ.* II. p. 116.)

Nevertheless we can apply the term price to money if we are careful to add that we are not absurdly measuring it by itself, but taking some other measure, which we must specify. Thus, we can say in England, where gold is our measure of value, that in the quinquennial period 1895–99, the average price of gold *in silver* has been higher than in the period 1865–69; and the same of the price of gold *in wheat*. This means clearly enough that more silver and more wheat had to be given to procure an ounce of gold in the second period than in the first. So we can say compendiously and clearly that the silver-price of money or the wheat-price of money in England has risen.

Further, if we find that not only more silver and more wheat, but more of most things than formerly are now required to purchase an ounce of gold, we can speak of an *appreciation*

of money, which means that the price of money *in things-in-general* or its general purchasing power has risen, in other words that prices in general have fallen. Only in this case the measurement is much more difficult and disputable than in the case of a single commodity.

Exactly the same remarks apply if the movement of prices is the other way. Comparing the periods 1840–44 and 1870–74, we see that the price of money in things-in-general was lower in England in the second period than in the first; that the general purchasing power of money had fallen, in other words, that prices in general had risen. And this can be called a *depreciation of money*.

The terms appreciation and depreciation thus understood are very convenient, and can be applied without confusion to money or to the money-material. Moreover, if we want to express more briefly the long phrases "the general purchasing power of money," or "the price of money in things-in-general," we can conveniently use the term *value of money*. Nor is this any great departure from the definition of value previously adopted; for money is *sui generis*, unlike other material goods; and its capacity of being estimated as desirable, and the consequent importance attached to it in society, precisely depend, not on any physical qualities, but on its general purchasing power. *See* APPENDIX M.

§ 7. **Measurement of Changes in the Value of Money: Index Numbers.**—The difficulties of measuring appreciation or depreciation of money are great. (*a*) Accurate records of prices are often absent, especially of retail prices, which in the aggregate are much more numerous and quite as important as wholesale. (*b*) The local variation of prices, especially retail prices, is so great that different calculations are needed for different localities. (*c*) Even when we have the prices, the quality of the goods priced (as sheep, shoes, butter, beer) may be very different, and thus vitiate our calculation. (*d*) The importance of some articles, for example in England, of flour, milk, coal, and building materials, is much greater than that of others, such as nuts, pepper, lead pencils, or valentines; and thus if milk became twice as dear and lead pencils twice as cheap as at present, it would be a blunder to reckon that prices as a whole had remained the same. (*e*) The importance of a change is not the same to all classes, because they consume different articles or different proportions of the same article. Thus a rise in the price of bread is serious for poor households, trifling for the rich; whereas, if the price of evening clothes, kid gloves, and patent leather shoes were doubled, the great mass of the English people would be unaffected, while for a few there would be a serious rise of prices. Hence

changes in prices might so occur that prices were lower for the poor (*i.e.*, that their money was appreciated), and higher for the rich (*i.e.*, that their money was depreciated); or *vice versa*.

These difficulties and others make impossible any complete and accurate calculation on the changes in the value of money. But if we frankly recognise the limitations and incompleteness of our results, we may profitably make use of what are called *index numbers*. A particular period is taken, and the prices of a number of articles during that period are averaged, and the result expressed by a figure, usually 100, which is the index number for that period. The process is repeated in subsequent periods; and then if the general average of the prices of the same articles results in (say) 95 as the index number, we say that general prices in the region observed have fallen, and that money has appreciated; but if the average gives an index number of 105, we say that general prices have risen, and that money has depreciated.

But such conclusion is only valid if great care has been taken in reaching the index numbers. The market prices observed must really represent those of the whole region observed; the number of articles selected must be large, must be representative, and must be "weighted," that is, allowance must in some way be made for their relative importance; and if some special cause affect some important item (like cotton in Lancashire, made scarce by the American Civil War), allowance must be made lest the average be unduly disturbed. By using such precautions (well explained by Mr. L. L. Price, *Money and its Relation to Prices*, 1896, ch. i.), we can distinguish real alterations in the price of goods due to a change in costs or utility (discussed above in chapter ii., under average market prices) from nominal alterations due to a change in the value of money.

Some writers, Jevons among them, have recommended the use of an index number as a standard for deferred payments under the name of *a tabular standard of value;* at first permissive and ultimately enforced by the law. This means that all debts, interest, rents, wages, and salaries would be paid with a diminution or an addition, according as the index number was above or below what it had been at the time of the contract that originated them. But the difficulties already mentioned in the way of reaching a true index number, the inevitable inaccuracy from the inevitable omission of most retail prices, the different index number that would be really true for different classes and localities, and the risk of the Government commissioners, who would declare the index number on which such grave results depended, being arbitrary, or biassed, or corrupt, seem decisive against the scheme.

Rents in kind spread over many articles may avoid the change in the standard for deferred payments consequent on a change in the value of money. Dr. Cunningham gives us an example from Anglo-Saxon times of such a rent, composed of bread, oxen, sheep, pigs, bacon, cheese, and three kinds of malt liquor. (*Industry and Commerce*, I. p. 111.)

§ 8. **Peculiarities of the Costs of Money.**— Gold and silver being practically the only two kinds of real money that concern us, let us confine our attention to them. Now it is true that in the gold and silver markets the same principles prevail as in other markets, and that the value of the precious metals is influenced directly by supply and demand, and indirectly by private costs of production and by private utility. This is true, but to say no more would greatly mislead us; for in the case of money there are peculiarities about the supply and demand, the costs and the utility, which ought to be specified.

First, there is extreme variety in the costs of production of the precious metals: for sometimes they can be obtained with the utmost ease, sometimes they require elaborate machinery and deep mines; and hence the differences between the gains of the different producers are extreme.

The principle of a lottery, where there must be a net loss to the subscribers taken as a whole, may be applicable to the production of gold and silver, which may be carried on at a total national loss, the gains of some not being enough to outbalance the losses of others. This has been reckoned to happen in the production of silver in the United States, and in general the production of the

precious metals is one of the most speculative of industries.

Adornments and plate made of gold or silver can be converted into money with great ease. Hence where vast amounts of the precious metals are in use for ornament, they may serve as a vast supply of money in time of war or revolution, as among the Greeks under Alexander, when the long-accumulated treasures of the temples of Asia were plundered, and a great fall in the value of money was the consequence. On the other hand, the existence of large amounts of gold and silver in a non-monetary form is a security against a sudden scarcity of money and against a sudden great rise in its value. And apart from any great revolution in the use of the precious metals, their extremely durable character and the vast stocks in hand compared with the annual production, render any change in the costs of production a matter of little moment for their value.

§ 9. **Peculiarities of the Utility of Money.**— The great peculiarity is that the quantity required is never fixed, but varies according to the value. When indeed the precious metals are used for anything else except money, a certain definite quantity of them is required, on the same principle that a certain definite quantity of leather is required for shoes. Thus for a gold watch, necklace, or goblet, a certain number of grains or ounces of gold is required, just the same whatever the value of gold. But for the purchase of food, clothes, and fuel, no definite number of grains or ounces of gold is

required, but more or less just according to the value of gold. Hence, whereas a lessening of the cost of gold plate, just like a lessening of the cost of tea, or boots, or coal, is *pro tanto* a national gain, a lessening of the cost of money is in itself no gain whatsoever. It only means that we must carry about in our pockets a heavier weight.

§ 10. **Rapidity of Circulation or Efficiency of Money.**—In the use of money there is a further peculiarity that the oftener in a given time it changes hands the less of it is wanted to do the same amount of business. In other words, money is more efficient the more rapid its circulation, and we can use as synonymous the terms efficiency of money and rapidity of circulation.

A classical illustration is from the siege of Tournay, in 1745, where the commander, having money enough for only one week's pay, paid the soldiers regularly for seven weeks by borrowing the coins every week from the inns where the soldiers had spent them. If the circulation had been in any way less rapid, and the coins had remained more than a few days in the pockets of the commander, or of the soldiers, or of the innkeepers, more money would have been required to effect the given business.

The rapidity of circulation is presumably greater in towns and densely peopled regions and where means of communication are good, than where population is scanty and scattered, with few opportunities of meeting. Apart from this, the rapidity of circulation is affected by whether payments are made in few or many instalments; the more frequent the instalments the more rapid the circulation; whereas if payments of large rents, dividends, or salaries are made at rare intervals, a large sum has to be collected and lie idle for some time.

§ 11. **Variation in the Amount of Money Payments.**—Apart from any variation in the value of money, the annual average

amount of real money payments in any country vary immensely with circumstances. Where payments of rents, wages, and even taxes are mostly in kind, where the households of the rich are provided with food from their own estates, where the inhabitants are mainly clad in home-made clothes, there are much fewer payments required than in a commercial country like England is now, where payments in kind are a rare exception, and where food and clothing are mostly bought. But if on the one hand commerce requires more money because of more payments, on the other hand it requires less because of the constant employment of substitutes for money such as token coins, paper currency, bills of exchange, cheques, and book credits. How these work will be seen in another chapter; but in proportion as they are efficient they lessen the amount of real money required. Again, in a commercial State, so many more people having to make payments, there will be so many more people who must keep stores of money to meet their engagements; but then, on the other hand, by the use of banks, these private stores can shrink almost to nothing. Again, commercial prosperity requires more gold to pay an extra weekly half-sovereign to a multitude of workmen, and to supply many shopkeepers with the six or seven sovereigns which they now habitually keep in the till instead of three or four; but the same prosperity allows bankers to lessen their till-money. Thus opposite forces are at work as commerce grows, and whether we are using more or less real money a head than some years ago is not easy to decide.

In England gold is the only money, silver being no measure of value, and indeed only a token coin, a shilling if melted down being not worth half its nominal price of one twentieth of a pound. The great modern demand for coin to pay wages and railway fares is mostly demand for silver coins, and the increased use of gold for these purposes is probably outbalanced by the decreased use of gold among the richer classes, almost all of whom have now an account at a banker's instead of a reserve of gold at home, and who make all large payments by cheque.

Observe that the line between the monetary and non-monetary use of gold or silver is, like many other lines, not quite easy to draw. Money kept as a reserve or even buried as a hoard, is still money, because at any moment it can at the will of the owner be brought into circulation; for being current coin every one will take it. But if kept back so long that it cease to be current coin, it ceases to be money, properly speaking, being no longer a medium of exchange, but having the character of gold plate or bullion.

§ 12. **Withdrawal of Real Money from Circulation.**—There remains one more peculiarity about money to be specified, namely, that the demand for it can be almost wholly annihilated by the action of Government substituting some other currency in its place, and thus making an end of real money payments. This can be done, because what men require in order to pay their debts is legal tender, not necessarily money. Hence if in a country with a gold currency like ours the Government issue tokens in the shape of paper tickets or base metal counters, and such a ticket or counter, having one pound stamped on it, can legally serve to pay debts of one pound, these tokens being legal tender, will become current, as no creditor can refuse them, and they are used by the Government itself in all its vast payments and purchases. But they will not merely become current alongside of the gold coins, they will drive them out of circulation in the following manner. The gold previously was sufficient for all payments and reserves; but now that there are the tokens as well as the gold, there is too much of the medium of exchange to do the work if this medium remain of the same value as before; hence both the gold and the tokens will sink in value, that is, a rise in general prices will follow, till the gold and tokens together exchange for no more than previously the gold alone. Or rather, this process will begin, that is, prices in general will begin to rise; but then the gold begins to be withdrawn from circulation, because as gold bullion it is worth as much as before, but as money (in the shape of coin) it is worth less.

It can be withdrawn from circulation in three ways: (1) To serve as a hoard for private persons or for Governments, and in particular as a reserve for banks. (2) To be paid to foreigners not, as previously, for the mere squaring of accounts, but now also as the cheapest way of paying for imports, or for freight, or as interest. (3) To serve as gold bullion at home for the various purposes in decorative and other industries in which gold is used.

Consequently, just so much gold will go out of circulation as the nominal value of the token currency that comes into circulation. And if the Government continue to issue the tokens, the gold will continue to be withdrawn from circulation, till a sovereign of full weight can only be seen as a curiosity. What will happen if even then more token currency is issued, is a very important matter, but does not belong to the present chapter, which has only to do with money, and not with that kind of currency which is not money.

§ 13. **Gresham's Law.**—The case we have been supposing is one example of the principle that if there are two mediums of exchange circulating together of unrestricted legal tender, and one of them has a higher denomination than the other, which means that by law or custom it is overvalued in relation to the other, then this overvalued medium will drive out the other. This principle is commonly called *Gresham's law*, after a sixteenth century writer, though it was well explained two centuries before him and understood some twenty centuries before him by Aristophanes (*Ranæ*, 719—733). It can be expressed in the formula, easy to be remembered, that inferior currency drives out superior, but

superior currency cannot drive out inferior. Only be careful to use the word currency and not money in this formula.

The case supposed above is simple, whereas in reality there may be complications, such as laws forbidding the melting or exportation of gold coin; though such laws are very hard to enforce when there is much profit in breaking them. Again, there may be complications from the fact of a similar process going on in neighbouring countries.

Observe what is sometimes called the *principle of limitation* as restraining Gresham's law. The inferior token currency will only drive out of circulation so much of the superior real money currency as it represents and no more. Thus if for every £100 previously wanted for money payments £50 of token legal tender is issued, and no more, half the gold coins will still remain in circulation, and only half will be withdrawn from circulation and no more.

§ 14. **Cautions against Mistakes on Money.**— From all that has been said above we must be impressed with the great complication of causes that in any locality determine the value of money, or in other words, determine general as distinct from particular prices; and we must be prepared to find questions of money surrounded by many confusions of language and thought. It may be well first to clear our minds by affirming the following proposition: Taking quantity of money to mean the number of ounces of gold in use as money (or of silver, where silver is the money-material), the quantity of money required by any country depends on three factors, (1) the value of money (*i.e.*, its general purchasing power or price in things-in-general), (2) the amount of money payments, and (3) the rapidity of circulation. Thus the higher the value of money, the fewer the money payments; the

quicker the circulation, the less money will be needed, and *vice versa*.

Then let us be on our guard against the three following mistakes:

(1) To think the more money in a country the better; when in reality it is no otherwise than with hats: the country should have enough hats for the heads, *plus* a reasonable reserve and no more; and enough money for the money payments, *plus* a reasonable reserve and no more.

(2) To think money has no intrinsic value, but is merely a counter or ticket; when really it cannot be money and serve as a measure of value, unless it have value: we might as well take for our measure of length an imaginary yard, corresponding to no definite portion of space.

(3) To say that money is a commodity like any other commodity, and that its value is determined like any other value; when in fact, as we have seen, though it is a commodity or merchandise, namely, an exchangeable material good, it is a unique commodity, *sui generis*, quite unlike all others.

§ 15. **Effects of a Depreciation or Appreciation of Money.**—One point remains to be explained, whether, namely, it is of much consequence, if the value of money suffers great and rapid changes, in other words, if there are great rises and falls of general prices. Now the level of general prices, whether you get much or little for a sovereign, is in itself of little consequence; for if you have to pay more for everything in the one case, you receive more for everything in exactly the same proportion. It is otherwise with changes in the level; for although it is a mistake to think untold calamity and national ruin can result from a revolution in prices, it still may be a serious calamity, because it causes great masses of wealth to be shifted from one set of people to another without any idleness or misconduct of the losers, and without any industry

or merit of the gainers. And thus, to keep the value of money steady should be among the aims of every good Government.

Where general prices rise and thus the value of money falls, those lose who have to receive a fixed money salary, all annuitants, pensioners, and such creditors as cannot call in their loans. Government, if there is a national debt, gains on the debt, but then loses on many taxes, as tolls, fees of court, postage, and such excise, custom, or stamp duties as are not *ad valorem*, but exact the same payment for a given weight or number of goods without regard to their value, and for certain transfers of property without regard to the amount transferred. On the other hand, those gain who have to pay fixed sums. And just the opposite to all this happens if instead of a *depreciation* of money there is an *appreciation*, namely, if general prices fall and the value of money rises.

Observe that who are to be the gainers and losers greatly depends on the particular circumstances of the country. Thus the nature of the English public revenue in the seventeenth century was of such a kind that the depreciation of money was a cause of constant financial difficulty to the Government, and one occasion of the Civil War. A depreciation may injure the poorer classes in the case where many of them live by wages; for a rise of wages is only too likely to lag behind a rise of prices. On the other hand, a peasantry and yeomanry, generally the best part of a nation, as they are likely to have to pay fixed rents and interest, are likely to gain by a fall in the value of money. As regards merchants and manufacturers, there seems considerable truth in Mr. Price's theory (*Money and its Relation to Prices*, ch. ii.) that their imagination is powerfully affected by the state of prices, kindled by a rise which unconsciously quickens, and enfeebled by a fall which unconsciously relaxes, their energy; and that a fall in the value of money is thus an encouragement to the active enterprising classes engaged in the production of fresh wealth, as opposed to the inactive unindustrious classes living on the wealth created in the past. But as so much depends on the special laws and circumstances of each country, little profit is to be got from generalities.

This indeed can be affirmed in general that the more rapid the change the worse; for besides the idleness or discontent due to many salaries being now either too small or too great, the spirit of gambling is brought into commerce, and since sure and steady gains are impossible, men are tempted to every folly. Hence come misdirected production and mis-

directed consumption, and thus a sudden revolution in prices brings not only a great shifting of wealth, but a considerable loss of wealth. And the shifting in great part is from the useful and honest classes to parasitic speculators who are best able to profit by a rapid change in the price-level.

§ 16. **Note on the Quantity Theory of Money.**—"Does the value of money depend on its quantity?" is a question often discussed and impossible to be answered unless we first know what is meant by the question. Mill lays down the proposition "that the value of money, other things being the same, varies inversely as its quantity; every increase of quantity lowering the value, and every diminution raising it, in a ratio exactly equivalent." (*Political Economy*, Book III. ch. viii. § 2.)

Now taking money in the sense defined above, and understanding by "other things being the same," that the goods exchanged for money remain the same, and the rapidity of circulation remains the same, and that the substitutes for money remain the same, and that the rapidity of circulation of these substitutes remains the same, and finally that the use of the money-material (as gold in England) for all other purposes (as plate and gilding) remains the same, the proposition may be allowed to stand. But then all these other things do not remain the same; and it seems more logical to enumerate and weigh the various influences which affect the costs and utility of the money material, rather than to begin with the hypothesis of only one influence, and then to correct our results by introducing what we have omitted. Professor Nicholson in his instructive chapter on the Quantity Theory of Money rightly lays down that "the effect on general prices must be the same when, in effecting a certain amount of transactions, one piece of money is used ten times as when ten pieces of money are used once." (*Political Economy*, Book III. ch. xv. § 2.) So we could alter Mill's proposition, and say "that the value of money, other things being the same, varies inversely as its rapidity of circulation." The proposition would be just as correct as Mill's, and just as misleading.

The student must be also warned of another point in these difficult discussions. The propositions are meaningless unless applied to some determinate group of men. The group spoken of by Mill is "the country" or "the nation." But this is to forget that as the precious metals are so easily transported, all countries and nations which are in commercial connection with each other, form in a sense one "community" with only one "market" for gold and one for silver. Hence, when considering the quantity of gold or silver, the rapidity of

circulation, the use of substitutes for money, and the use of gold or silver in the arts, we must not look at a single country but at the whole commercial world, if we are to judge rightly of the effects of these influences on the value of money. Hence if Mill's proposition on the quantity of money is meant to apply to a single country, we have to assume, besides all the other assumptions already mentioned to make it true, that the country is isolated. Else it would be false; inasmuch as the value of money in one country is profoundly affected by the value of money in all other nations with which it is commercially connected, and which use the same money-material.

Besides, since countries using different money-materials, in particular gold-using countries and silver-using countries are in close commercial connection, the question becomes still more complicated; and, as Professor Nicholson says at the close of his chapter (xvii.) on the interaction of gold prices and silver prices, "the central fact remains that we cannot look upon general gold prices and general silver prices as two independent systems each determined by the quantity of the particular precious metal relative to the work to be done by it." For the value of (gold) money in gold-using countries and of (silver) money in silver-using countries is influenced by the price of gold in silver and of silver in gold.

CHAPTER VII.

COINAGE AND TOKENS.

§ 1. **Advantage of Coins over Metallic Currency by Weight.**—If metals are used as a medium of exchange, there is an obvious convenience in our not being obliged at every exchange to test their quality and measure their quantity. Hence the use of *coins*, probably an invention of the Greeks, which are pieces so marked as to certify both the fineness and the weight of the metal.

In China, till quite recently, the only coinage was a copper currency much too heavy for travellers to carry in any large quantity; they had in consequence to use pieces of silver, and to suffer much delay, vexation, and often extortion in getting this silver weighed and assayed. Still we must not exaggerate the importance of coins, much less make coinage an essential to money; for then we should have to say that the vast and highly civilised empires of Egypt, Chaldaea, and Assyria, with immense commerce, conducted it all without the use of money, which would be a needless paradox. Their money was in the shape of *a metallic currency by weight.*

§ 2. **The Standard Unit of Value: Denomination of Coins.**—The use of coins implies that not only shall a particular metal be adopted as the measure of value, but also that a particular quantity and quality of the metal (*i.e.*, a particular weight and fineness) shall be adopted as the unit of measure-

ment. This unit is called the *standard unit of value*, or simply, *the standard*, and in the United Kingdom is the sovereign, containing 123·27447 grains of gold of the fineness of eleven parts of pure gold to one of alloy.

As a consequence, a troy ounce of gold is coined into 3·89375 sovereigns, or £3 17*s.* 10½*d.* And just the same principle applies to all other units, whether the French gold franc, the German gold mark, the Indian silver rupee, or the Mexican silver dollar. Observe it is not necessary that the standard unit should be exactly represented by any coin. It is so in England and India, but not in Germany or France. In the technical process of coining it is impossible to avoid a slight variation in weight and fineness, called "tolerance" in France, and "remedy" among ourselves. But the variation is so small as not to make much practical difference.

In every country every coin and every other medium of exchange must be referred to the standard if we are to know their value. Thus a shilling means the twentieth part of a gold sovereign, a penny the two hundred and fortieth part; a napoleon in France means twenty gold francs; a pfennig in Germany means the hundredth part of a gold mark; an anna in India means the sixteenth part of a silver rupee. And the relation which a coin professes to bear to the standard is called the *denomination* of the coin.

§ 3. **Distinction of Standard and Token Coins.**—Standard coins are those whose denomination is really in accord with their material and weight. Thus among ourselves a well preserved sovereign and half-sovereign are standard coins. They profess to be, respectively, one and one half of the standard unit of value; and they are.

Token coins (sometimes called *subsidiary coin*)

are those whose denomination is not really in accord with their material or weight; they are lacking in fineness or weight, or both, and they may even be of another metal than the standard. Nevertheless their value may keep as high as their denomination, first, because they are in demand for small payments, and the Mint has a monopoly of their production; secondly, because they can be exchanged at law for what they profess to be, not for what they are; that is, they can be exchanged for as much standard coin as corresponds with the marks on their faces, not with the composition of their bodies. Thus the denomination of our English shilling is the twentieth part of a sovereign, and twenty shillings will buy exactly as much as one sovereign, though the metal in them is only worth about a third of a sovereign.

The shillings, moreover, would buy just as much as they do if they had in them only half the silver they actually have; nay, even if they were mere bits of paper with the word shilling written on them. For their value does not depend on their being metal, but upon their being counters or tickets; and a paper ticket is as good as a metal ticket. In fact, such paper tickets, in the shape of bank-notes, are current among us; and thus our English currency is composed partly of real money, namely, the standard gold coins, partly of tokens; these tokens being divisible into token coins, with ingredients worth less than their denomination, and bank-notes with ingredients worth next to nothing at all. The ingredients of the bronze coinage are further removed in value from the denomination of the coin than that of the silver coinage; for the metal of the two hundred and forty pennies, instead of being worth a sovereign, are barely worth a quarter of a sovereign. It should be observed that standard coins, when they get much worn and defaced, become assimilated to token coins.

§ 4. **Use and Abuse of Token Coins.**—The use of token coins among ourselves is to provide convenient currency for small payments. A gold shilling would be much too small for convenient use,

and a gold penny would be like a pin's head. Even were silver the standard, silver pence would slip through the fingers, and silver farthings would need a pill box to hold them. If, on the other hand, copper was adopted as the standard, any large payment would require the use of a cart, unless, as would certainly happen, some other currency were used as a supplement. This might either be a token currency like paper notes for vast sums of copper, or might be a *goods currency*, that is to say, some merchandise like silver might be used as the common medium of exchange for all large payments, the amount paid depending on the market price of the merchandise at the time.

Thus in the vast and busily trading Empire of China, till quite lately, the standard of value has been copper, and the only coinage a copper one; while for making large payments or carrying large sums there has been both a token currency of bank-notes and a goods currency of silver bullion.

An incidental use of token coins is that they give a profit to those who are able to get them into circulation; and this profit will be greater in proportion as their denomination exceeds the value of their ingredients, or as this is sometimes expressed, in proportion as their nominal value exceeds their metallic value.

From this and from what has been said before, it appears that the issue of token coins is likely to be among the proper functions of a reasonable Government. But there is need for the Government to observe *three precautions in the issue of token coins*. *First*, the ingredients of the token coins must be of less value than their denomination; else it would be the interest of every one to melt them. For if the silver contained in twenty shillings were of greater value than one sovereign, then in the shape of shillings they would only exchange for one sovereign, but in the shape of silver bullion they would exchange for one sovereign and something more. *Secondly*, the ingredients of the token coins must not be of value so much less than their denomination as to cause a violent temptation to false coining. In the case of copper, indeed,

the temptation is less because so great a mass of metal has to be coined in order to make a profit large enough to be worth the risk of punishment. But our silver coins, which now, through the depreciation of silver, contain each shilling only some four pennyworth of silver, offer a serious temptation to false coiners. No doubt there is a still greater profit by counterfeiting bank-notes; but the technical difficulties of imitation and the risk of detection are greater, and thus the temptation is less. *Thirdly*, and chiefly, there must be a limit put to the quantity of token coins in circulation; else they will take the place of the standard coins, and finally by the operation of Gresham's law will drive them out of circulation. One method of limitation, effectual if Government observes its own law, is to limit the amount for which token coin is legal tender; thus our English silver tokens are legal tender only for forty shillings, and our bronze tokens only for one shilling. This has been called by Jevons the *composite legal tender system.*

§ 5. **How to prevent Degradation of the Coinage.**—In minting both token and standard coins, care should be taken against the triple danger of coins being counterfeited, abraded, or maltreated. *Counterfeiting* is least where the design of the coin requires elaborate machinery. *Abrasion*, or wearing away by lawful use, is least in the case of large coins with a design in low relief and of a material hardened by alloy. *Maltreatment*, such as clipping the edges or drilling holes in the body of the coins, is least where these coins are not very large, and where the design is on the edges as well as on the flat surface.

These technical details are of serious importance, lest by neglecting them we allow a *degradation* of the coinage, that is, where most of the coins are so worn or damaged as to be below their proper weight. When this is common, the last holders of light coin often suffer great hardship when they have to make payments to Government offices where coin is weighed. Also the more the coins are defaced, the more temptation to continue the practice of defacement; whereas with a coinage generally good it is not easy to pass a very worn coin. Worst of all, as these light coins in so large a multitude of dealings are in fact, though not by strict law, legal tender, the standard unit of value becomes lowered, money being depreciated to the extent of the average degradation of the standard coin. And the evil tends to perpetuate itself and grow worse. For by the operation of Gresham's law, the worn coinage drives out the unworn; speculators collect and melt down the new coins, whose value as coins is less than their value as metal, because in common circulation they cannot be distinguished from other coins; and the

operations of the mint become, in Adam Smith's famous phrase (Bk. IV. c. vi.), like the web of Penelope.

Even where the coinage is not degraded the melting down and export of coins can occur if gold is required for exportation; and the cost of coinage is thus altogether wasted. To prevent this evil in both cases, there is need of a charge in some form or other for coining. Then the coins under ordinary circumstances will have an exchange-value greater by the amount of such charge than the mass of uncoined or melted metal of equal weight and fineness with that in the coins; and there would only be loss, not gain, in melting them down. The word *seignorage* is generally used, and is used here, to express all charges for coining. Sometimes mintage is used as the general term, and is divided into *brassage* for payments strictly confined to defraying the cost of coinage, and seignorage for all payments over and above this.

The attempt to raise a large revenue by seignorage, and to make a charge for coining far above the costs, would fail because of the immense encouragement this would give to counterfeit coining and to the use of substitutes for coin. But to make a charge, at least equivalent to the cost of coining, appears the reasonable course; else gold coin is artificially undervalued, nothing being allowed for workmanship; and besides the risk of the coins being melted, more of them are required for a given amount of exchanges, which is a waste, small indeed but needless, of national resources.

The profit made on the issue of token coins and paper currency is sometimes spoken of as a seignorage, and the amount of the profit on paper currency expressed as being a seignorage of 100 per cent. But although this language has two great authorities on money, Ricardo and Walker to support it, and can be so explained as to be true, it obscures the line between token and standard currency. For whereas genuine seignorage raises the value of standard coin, adding the item of workmanship to the items of material and weight; the value of token currency, whether coins or paper, has no relation to their workmanship, any more than to their material or weight, but simply depends on their denomination, that is, on their relation fixed by law to the standard unit of value.

In England there is nominally no seignorage, every one being supposed to be able to get coin at the rate of £3 17*s.* 10½*d.* for every ounce of gold he takes to the Mint, and thus to get the coin *gratis*. But, in fact, every owner of bullion who wishes coin, takes his gold to the Bank of England (which by law must take all gold offered it at the rate of £3 17*s.* 9*d.* an ounce), and gets back coin at charges, all told, amounting to about ¼ per cent., preferring to pay this

sum of a little over a halfpenny in the pound sterling rather than suffer the delay that else would follow and the consequent loss of interest before he got back the coin from the Mint. So we have a seignorage in fact if not in name. In France there is a charge by the Mint of about $\frac{1}{5}$ per cent. for coining.

§ 6. **Debasement of the Currency.**—At the end of the last chapter we traced the effects of either a depreciation or an appreciation of money, that is, a change downward or a change upwards in the value of money, in other words, a rise or a fall in general prices. Similar effects are produced when the Government alters the standard unit of value, and decrees (to take an extreme case for the sake of illustration) that henceforth each half-sovereign is a pound, and that each pound is forty shillings. This is not properly any depreciation of *money*, gold having the same value as before; but is a depreciation of the currency, and is best expressed by a special phrase, *debasement of the currency*. This has been done in three ways: first, by *adulteration*, that is, by keeping the same weight of metal as the standard unit of value, but mixing more alloy with it: a "treacherous fraud," as Adam Smith has called it. Secondly, by *augmentation*, that is, by raising the denomination of the coins, calling pieces of smaller size and weight by the same name that the larger and heavier pieces used to bear. This "injustice of open violence" has often been practised; pounds English and pounds Scot were once alike, but while the English pound shrank to one-third of its ancient weight, the Scotch shrank to one-thirty-sixth, causing the distinction between the

two pounds familiar to the readers of Walter Scott; and in France the shrinkage of the *livre* was to one-sixty-sixth of its ancient weight. Thirdly, by a method suitable to our own commercial age, the same evil end has been reached by *over-issue*, that is, by the issue of inconvertible paper currency beyond what is sufficient to replace the standard coinage driven out. But before explaining this modern form of debasement, let us look at the use of a Government paper currency, and then we shall better understand the abuse.

I say "Government" paper currency, because this alone can be over-issued (in the strict sense), and not private paper like private bank-notes, bills of exchange, cheques, or other paper instruments, which as a fact do circulate freely in certain districts and thus are genuine currency. What is needful to be said of such private paper will be said in the next chapter; at present our business is only with Government paper.

§ 7. **Use of Inconvertible Paper Currency.**— Now what is the motive that induces any Government to fill the country with paper? It is this, that wherever a currency of standard coins is in use, and the conditions of trade and society are like those of modern Europe and America, it is possible for a Government to take well-nigh the whole amount of that currency for its own ends, and be richer by all that vast sum, while no one else is any the poorer. For example, the English Government might pay all its domestic creditors and all its soldiers and civil servants, not in gold coin or in orders that might be exchanged for gold coin at some public office, and therefore to be called *con-*

vertible paper, but in State notes of one pound or ten shillings, and might declare these notes to be legal tender, without undertaking to give coin in exchange for them. They would then be what is called an *inconvertible paper currency*, known abroad by the suggestive term of forced currency (*cours forcé*), and often both at home and abroad by the misleading name of paper money. For brevity such notes can be called inconvertible paper; and nothing is easier than their issue. For so vast are the payments which modern Governments have to make, that their notes can be put into circulation with the utmost speed, and in a year or two at most the hundred millions or thereabouts of our standard coinage would, by the action of Gresham's law, be entirely exported, or melted down, or hoarded, if inconvertible paper to the amount of a hundred millions or thereabouts had been issued.

Remember this is a *modern* resource, implying great payments in currency by Government and elaborate credit contracts. But if a Government supported itself from its own estates, and received most of its revenues and paid most of its servants in corn or cattle; and if most exchanges in the country were for cash over the counter: then it might be very difficult for a Government to induce any one to take its notes.

So far, it may be said, so good; the Government has been enriched and no one else any the worse; nay, every one the better; for nothing is so convenient as notes, so easy to carry, to stow away, to make large payments with; and last not least, as notes can be and ought to be numbered, each can be identified, unlike coins, and thus a great security be given against theft.

§ 8. **Abuse of Over-issue.**—Unhappily shadows creep over this bright picture. First, as no one can eat his cake and yet keep it, so when once the standard coin is gone, the Government cannot profit a second time by substituting paper in its place. And if to meet a sudden emergency a Government has expelled the standard coin, it ought as soon as possible to issue a fresh coinage, so as to accumulate a fresh reserve for future troubles. But too often, instead of stopping the issue of notes when all the standard coin is gone, Governments have continued the issue, with results exactly the same as if they had adulterated the coinage or raised the denomination of coins. For now the paper in circulation being in excess of the amount required for payments in paper, the value of this paper will fall in some proportion to the excess. A paper sovereign will now no longer buy so much as it used to; in other words, the standard unit of value has been lowered, and there is debasement of the currency, as in the previous cases of adulteration and augmentation. The name for debasement in this third case—for this excess of inconvertible paper—is *over-issue*.

Strictly speaking, we must not say in this case that money is depreciated, because there is no money: it is all gone. The paper stuff is the medium of exchange, but no measure of value. The measure of value continues to be gold (or silver, as the case may be), but no longer the same amount of gold. If the over-issue were in England, for example, the standard unit of value called a pound would no longer be 123·27 grains of gold, but a fluctuating quantity to be reckoned by the amount of gold that a paper pound would purchase. Hence, if there was an over-issue to the amount of double the quantity of notes required, and if the currency was depre-

ciated in proportion, the standard unit of value would have shrunk to about 61·63 grains of gold. This would be expressed commercially by saying the *premium* or *agio* on gold was 100 per cent.

Theoretically, token coins could be over-issued in the same manner as paper notes. But I do not know that this has ever been done; and the use of paper is much quicker, easier, and cheaper for a Government in distress. So, although the device of over-issue is applicable to all tokens, we may look on it practically as confined to paper currency.

An over-issue produces all the effects of a great fall in the value of money or a general rise of prices, only intensified, because so sudden; and in many cases is little better than the older forms of debasement so vehemently denounced by the scholastic economists. And when once a considerable over-issue is in existence, then, although no more notes are issued beyond replacing those lost or worn out, still, political events, such as the likelihood of a standard coinage being brought in again (sometimes called *resumption of cash payments*), may cause the value of the paper to fluctuate immensely, and reduce much of wholesale trade to a mere lottery.

A classical example of such fluctuation is that of the United States during and after the Civil War. The premium on gold compared with the inconvertible paper, called greenbacks, varied as follows:

Year	1862	1863	1864	1865	1866	1867	1868
Highest premium	37	72½	185	134½	67¾	46⅜	50
Lowest premium	0	22½	51½	28½	25	32	32

Year	1869	1870	1871	1872	1873	1874	1875
Highest premium	62½	23¼	15½	15¼	19	13⅜	17½
Lowest premium	19½	10	8⅜	8½	10	9½	12

The banker, Mr. Edgcombe, relates how in 1886, in Brazil, his notes, worth £6 when he set out on a journey, were worth

when after two months he came back, £8, because the premium on gold had fallen so much in the brief interval. A little later a striking example of over-issue was seen in Argentina, the premium on gold rising within three or four years from little or nothing to over 200 per cent.

§ 9. **Regulation of an Inconvertible Paper Currency.**—Mark that inconvertible paper currency and debasement are by no means one and the same thing. There is only debasement if there is over-issue; and a properly regulated paper currency will avoid both. For if the Government stopped issuing inconvertible paper the moment there was the smallest premium on gold, that is, as soon as a paper note for one pound could only buy nineteen shillings eleven pence half-penny worth of gold, all serious depreciation of the currency would be avoided. In fact this was done by the French Government after 1870, and is known as the *gold par method* of regulating a paper currency. Previously, although not acting on this principle, the Bank of England, which by the Act of 1797 suspending cash payments, had the power to issue inconvertible paper, was so moderate in its issues, that for ten years there was no depreciation of its notes. But the temptation to over-issue is so great that the abuse of inconvertible paper is more likely than the use, as far as present experience shows, and such paper should only be resorted to on an emergency, and got rid of when the emergency is over.

The temptation to over-issue is increased because many Governments are more or less under the influence of great merchants and speculators, who can make enormous profits by each rise in the premium on gold.

When there has been an over-issue, the very difficult and delicate question may arise whether in going back to a standard coinage, the standard should be what it was before the over-issue and before the consequent depreciation of the currency, or whether it should be lowered in some proportion to the depreciation; for example, in the case previously supposed for England of the premium on gold reaching 100 per cent., whether the new gold sovereign of the restored standard coinage should contain the original 123 grains of gold, or only 61 grains to correspond with the value of the existing currency, or something intermediate between these two extreme points. If the depreciation has been very great, as in the case supposed, and if it has lasted for many years, then to bring back the old standard is to cause a fresh revolution in prices, and to commit a new injustice too tardy to remedy the old. In other cases much is to be said on either side, and so much depends on the particular social conditions of each country, that a general answer would only mislead us.

We must beware of *two notable mistakes* on inconvertible currency. One is to think that there can be no over-issue if the notes, like the French Revolutionary *assignats*, are "based on property," that is, if the Government hold property of value equivalent to the notes issued. For it is not the wealth and resources of the Government, but the quantity of notes in circulation, that determines whether they are depreciated or not. And thus the vast resources at the disposal of the United States Government in the year 1866, when the civil war had been triumphantly ended, did not hinder the premium on gold from being 25 to 67 per cent.

The other mistake was that of the Directors of the Bank of England at the time of the suspension of cash payments already alluded to. "They believed that as long as they issued notes only at 5 per cent. and only on the discount of good bills, these notes could not be depreciated. And as the number of "good" bills . . . does not rapidly increase, and as the market rate of interest was often less than 5 per cent., these checks on over-issue were very effective." (Walter Bagehot, *Lombard Street*, 4th Edit. p. 177.) But after about ten years these checks failed; Bank of England notes became depreciated; and the explanations of the Directors have been called by Bagehot "almost classical by their nonsense."

§ 10. **Enhancement of the Currency.**—This is the converse of debasement, being an artificial appreciation of the currency instead of an artificial

depreciation (Nicholson, *Polit. Econ.* II. p. 285), and is the raising of the standard unit of value by the Government. It is as feasible as debasement; but there has seldom been sufficient motive for it, and it attracted little attention till a conspicuous modern example was given by the Indian Coinage Act of June, 1893, which by suspending the coinage of silver rupees, aimed at raising the value of the rupee considerably above the value of the silver contained in the rupee; and has succeeded in its aim.

An earlier alleged example is that of the Roman Emperor Heliogabalus, who is said to have increased the weight of metal in the standard coins, and thus appreciated the currency by raising the standard unit of value. The financial aim of the measure was to raise the value of the fixed payments which formed a large part of the revenue, and thus to increase them in reality while they remained nominally the same. The Indian enhancement acts in the same way, because much of the revenue of the Indian Government, unlike the English, is made up of payments settled for a number of years, and in some cases settled in perpetuity. It seems indeed dubious whether the obscure passage from Lampridius (*Vita Alex. Severi*, ch. 39) will bear the interpretation given by McCulloch (*Encyclopædia Britannica*, 9th Edit. 1858, *s.v.* Money). But he rightly notes that "to elevate the standard after it has been for a considerable period depressed," as done in France by Philip the Fair, and in England under Edward VI., is a case of enhancement. In other words, if a debased currency is of long standing, it ceases (except perhaps in name) to be debased; and thus to restore the old standard would not be an act of restitution, but a fresh revolution.

Deliberate enhancement of the currency must be distinguished from temporary and accidental appreciation due to its scarcity. Small change may run short and be only obtainable at a premium; and even standard coins may be scarce. Thus, in Australia, for some time after the gold discoveries there was a considerable appreciation in the currency, at times over 15 per cent., principally because the banks were legally obliged to pay in coin, and there were no Australian mints. (Nicholson, *Political Economy*, II. p. 117.)

§ 11. **Working of the Indian Coinage Act.**—For nearly twenty years previous to this Act the gold-price of Indian money, which was the silver rupee, had been falling, till a rupee which had formerly exchanged for two shillings of English gold, now exchanged for less than one shilling and fourpence. Whether during the same period there had been any considerable fall in the price of the rupee in things-in-general, *i.e.*, whether general prices in India had risen, is disputed. It is certain, however, that the rise of general prices, if any, was by no means so great as the rise of the silver-price of gold. Then, by the Act of June, 1893, the Indian mints were suddenly closed to the coinage of silver, the avowed object being to keep up the value of the rupee as equivalent at least to 1*s.* 4*d.* in gold, and to prevent its being involved in the further fall anticipated in the gold-price of silver.

This object was not at first obtained; silver fell in its gold-price as anticipated; but rupees were dragged down with it. Then indeed, gradually, as was to be expected, their scarcity became felt; and a growing difference arose, till by the end of 1899 while the silver in the rupee was worth in gold not more than eleven-pence, the rupee itself was worth 1*s.* 4*d.* The particular figures indeed are of less interest than the main fact, that such an *under-issue* corresponds exactly to an over-issue; for the standard unit of value called a rupee is no longer a definite weight and fineness of silver, but a fluctuating quantity to be reckoned by the amount of silver that a coined rupee will purchase. There is this difference indeed between debasement and enhancement, that an over-issue can go on almost *ad infinitum*, whereas an under-issue is checked by the likelihood of counterfeit coinage, to which there is a tremendous stimulus if the value of the coin greatly exceeds the value of the metal it contains.

The closing of the Indian mints has been likened to a *coup d'Etat*, and was an extraordinary exercise of arbitrary power. But we must pass over the many controversies, economic and political, of which it has been the occasion; the apologies for under-issue being much like the apologies for over-issue. One argument indeed may be noticed, that by enhancing the value of the rupee it becomes easier for the taxpayers of India to raise the annual sum of seventeen million gold pounds they have to pay to Great Britain. But "it is a mere matter of arithmetic," says Sir R. Giffen (*Economic Journal*, Sept. 1898, p. 304), "that the burden of foreign obligations in gold on the people of India is not affected . . . by the fact that the money [currency] of India is silver, or copper, or paper, and not gold. The foreign gold obligations

are clearly paid by the *produce* which India exports, and according as India has a surplus or not for export, so will its foreign gold obligations be easily, or not so easily, met." In a word, if gold has appreciated about 30 per cent. no changes in Indian currency can alter the hard fact, that for the Indian taxpayers to pay annually seventeen million pounds reckoned in gold, they must, as India produces little gold, collect annually of other goods about 30 per cent. more than formerly to meet this payment.

§ 12. **Bimetallism Explained.** — There yet remains an important matter to be made clear. We have all along been supposing in existence only a *single standard* unit of value, often known as *monometallism;* but in fact a *double standard* or *bimetallism* has often been adopted, namely, a given weight and fineness both of gold and silver. This implies two things: first, that a relation be fixed by law between the two metals, that the ounce of fine gold be to the ounce of fine silver as (for example) $15\frac{1}{2}$ to one; and secondly, that both silver and gold be legal tender in unlimited amounts. The difficulty is to maintain a double standard except in name; for if the relation between the two metals is not originally fixed by law at the same figure as prevails in the metal market, or even though originally the same, if it becomes different in course of time by not following the changes of the market: then by the operation of Gresham's law, the overvalued metal is likely to drive out the undervalued, all payments to be made in one metal, and in practice a single standard to prevail.

Thus in England in the period 1717—1774, although nominally a double standard prevailed, yet as silver was undervalued and gold overvalued, gold became the predominant metal, only the worn and clipped silver coins

remaining in circulation. In 1774 the double standard was partially abandoned. For although silver by weight was still legal tender for any amount, silver by tale, *i.e.*, silver coinage, was only legal tender up to £25. An inconvertible paper currency, as we have seen, was introduced in 1797; and when after the great war with Napoleon, a fixed standard unit of value was restored (called "the resumption of cash payments"), gold alone was taken for the standard, and silver was reduced to a token coin, only legal tender for forty shillings. In France, where the mints were open to the unlimited coinage of both metals at a fixed ratio, silver, having been slightly overvalued, was the usual currency during the first half of the nineteenth century, and gold but little used, indeed commanding a premium. But when the gold discoveries in Australia and California had changed the relations of the two metals and raised the value of silver, it was found that now the metal overvalued by the French legal ratio was no longer silver but gold. Thereupon and in consequence the new gold poured into France by hundreds of millions, and the silver poured out, much of it going to India, where it was turned into rupees at the Bombay and Madras mints; and gold became the chief circulating medium of France. But then after the German War, by a fresh alteration in the market relation of the metals, silver became once more the overvalued metal, the gold was on the point of being driven out of France, and silver on the point of returning, when the Government intervened and virtually suspended bimetallism by suspending the coinage of silver. The name of *limping bimetallism* ("étalon boiteux," or limping standard) has been given to this device. The larger silver coins (not the small token coins) are legal tender to any amount, but any amount cannot be procured.

§ 13. **Working of a Bimetallic Union.**—Many economists in view of such facts have too hastily maintained that only a single standard is reasonable. In doing so they make two assumptions, first, that serious changes in the costs or utility of one of the two metals are likely to occur without similar changes in the other; and secondly, that there can be no international accord on the matter. But we may just as well assume just the contrary, that such

changes will not occur, and that such an accord will be made. And then if the British Empire, the United States, the Latin Monetary Union, Germany and Holland, all formed together a bimetallic union, agreeing on a double standard, say, that an ounce of gold should be to an ounce of silver as 15 or 20 or 30 to one for evermore, what then would happen? If when the relation was fixed the market relation was also the selected 15 or 20 or 30 to one, prices and incomes would not be affected, at least for the moment, as is obvious. The various countries of the bimetallic union would have their standard coins of gold and silver, and their reserves of gold and silver bullion just as they required; and there would be the immediate blessing for all traders and travellers of what would be to a great extent an *international coinage*. Indeed, one of the advantages of a bimetallic union would be the ease of establishing an international coinage among them. But then supposing, as time went on, that gold-mining became rather harder or silver-mining rather easier, or supposing rather more gold in proportion was required for the arts and crafts, and rather less silver, would not Gresham's law come into play, and turn all the members of the bimetallic union into monometallic countries with silver as the one coin? By no means: for although this law would come into play, it would only cause rather more silver to be used in the bimetallic union, and rather less gold. For in so vast a population as that comprised within the limits of the union, a very slight increase in the demand for silver coin and a very

slight slackening of the demand for gold coin, would rapidly cause silver to conform again to its former relation to gold, and long before the extra demand for silver, as the cheapest mode of paying debts, had become a rush for silver, this would cease to be the cheapest mode of paying debts. A little more silver would be in use proportionately to the gold in use, or *vice versa* if it had been the gold-mining that had become easier; and that would be all. In this way would be attained the great aim and advantage of bimetallism, that prices would remain much steadier than under monometallism, because of what is called the *compensatory action of the double standard*, namely, that the costs or utility of two metals, instead of the costs or utility of only one metal, would have to be seriously affected before a revolution in prices could follow.

In support of this argument observe that the English mint from 1666 to the suspension of the free coinage of silver in 1798, was open to the free coinage of both metals (except a temporary suspension of the coinage of gold during the recoinage under William III.); that the French mint, by the *Loi du 7 Germinal, An XI.*, was open to the free coinage of both metals from 1803 to 1873; and that in spite of the great variations in the relative production of gold and silver, the ratio of value of the one to the other did not diverge more than 3 per cent in either direction from the middle of the seventeenth century till 1873. For a brief and clear account of these matters see L. L. Price, *Money and its Relation to Prices.*

Another advantage of a bimetallic union would be this, that the present uncertainty of profits in the trade between countries with a gold and countries with a silver standard, bringing injury to honest and sober merchants, and encouragement to rash speculations, would be at an end.

§ 14. **Grave Divergence of Interests an Obstacle to Bimetallism.**—But if the thing is so

simple and advantageous, why is it not done? And why is there such distressing violence in the discussion? This is because the interests of different nations, classes, and persons, are at variance. There is first the fact that the rise of the value of gold in recent years is a gain in general to creditor States, such as Germany, France, Belgium, and above all England, which receives interest reckoned in gold from half the world. There is also a gain in particular to the bankers and financial houses of great towns such as Paris, Berlin, Vienna, New York, and above all London, as the holders of innumerable mortgages. On the other hand, those debtor countries which have to pay in gold the interest of their debts, such as India, Egypt, and New Zealand, and the debtor classes in the same position, notably the landowners of the United Kingdom, of the United States, and of Germany, suffer by the fall of prices. But still more violent becomes the conflict of interest when the question is reached of the relation between the two metals to be fixed by law. The old relation was $15\frac{1}{2}$ of silver to one of gold, or nearly sixty-one gold pence for an ounce of silver. But during the last quarter of the nineteenth century the gold-price of silver sank (with some fluctuations) about half; and thus the ratio became about 31 to one. Now it is not the wish of most bimetallists to stereotype this new relation of silver to gold, brought about mainly, they contend, by the arbitrary action of Governments, such as the substitution of gold for silver as the chief currency of Germany, after the French

War, the closing of the French mint in 1873 to the unlimited coinage of silver, the resumption of specie payments (*i.e.*, payments in standard coin instead of in inconvertible paper) by the United States in 1875 on a gold basis, virtually establishing a gold standard; the adoption in subsequent years of a gold standard by Austria-Hungary, Russia, Chile, and Japan; the accumulation of vast masses of gold in the war chests of Russia and Germany; and the closing of the Indian mints in 1893 to the free coinage of silver. But then to fix any other relation than the existing market relation, is denounced by the monometallists as robbery; to which the others reply that it is not robbery but restitution. Evidently the question is delicate, and to come to an agreement is difficult.

Practically, the interests arrayed against bimetallism seem too powerful to allow its restoration; and probably nothing could restore it except immense discoveries of gold, that might threaten seriously to reduce all gold debts; and this would make the present monometallists the most eager of bimetallists. At any rate the question has lost its acuteness, because the price of silver, after sinking at the beginning of 1903 to the lowest point of less than 22 gold pence an ounce, has risen with some fluctuations to the present price (Oct., 1906) of nearly 32 gold pence.

Theoretically, we must beware of saying that it is absurd for Governments to try and fix the relation between gold and silver, because all must depend on their relative costs of production, which no Government can regulate. This is a double fallacy, first in supposing that money is just like any other commodity, and secondly in supposing that value depends only on costs, as though utility had no effect; whereas precisely in this case the agreement of Governments exercises a gigantic influence on the utility of money, especially on the relative use of the two kinds of metal.

CHAPTER VIII.

CREDIT AND BANKING.

§ 1. **Meaning of Credit and of Cash.**—We have now seen the nature of money, of coin both standard and token, and of inconvertible paper currency; but still we have not seen enough to explain modern trade; since much the greater part of this trade in our own country and a large part of it in many other countries is carried on without any money, coins, or inconvertible paper being used at all. Actual trade is conducted on a vast system of borrowing and lending, of circulating written claims and debts, of cancelling one claim and one debt against another; and whether or not we praise this system of commercial credit, there is no doubt that not a quarter of modern trade could have arisen or could continue without it.

But first, what is *credit?* Putting aside the vague, popular, and wide meanings of the term, let us use it in the strict and narrow sense to mean agreed postponement of payments in currency. Credit in this sense arises in two ways: first, when currency, or an order for it, has been lent; secondly, when goods have been received and by consent have not been paid for. In the first case there is a

formal loan, in the second case a virtual loan. This second case of credit is the reverse of *cash-payment;* using the word *cash* to mean both currency and orders convertible into currency within a very short time.

In common language the word cash has no precise meaning, and even in the technical language of commerce its meaning is not uniform. When defined as above and thus including the items that in the language of some bankers are called "cash in hand and money at call and short notice," the word enables us to express with brevity and clearness two opposite kinds of business transactions, as credit transactions on the one hand, and cash payments on the other. The phrase *ready money* means in ordinary conversation whatever cash may mean, but is a phrase out of place in economics.

Commercial credit is where the formal or virtual loans that constitute credit are among traders for the sake of trade.

§ 2. **Banking in General.**—Now as the focus or centre of commercial credit is to be found in banks, let us examine the chief functions of all kinds of banks, and make our way, as best we can, through the labyrinth of confused opinions and technical terms that surround them.

The origin of the word *bank* seems to be an old Teutonic word meaning a heap, or common stock, or fund. Let us take it to mean a collection or store, not of common goods, but of bullion, or coins, or non-metallic currency, or valuable titles, claims, and obligations. The manager of such a collection is a *banker.*

In this wide and general sense the word bank includes various kinds of business called by various names, such as banks of deposit, banks of issue, banks of remittance, land

banks, *crédit mobilier*, loan banks, people's banks, savings banks, *monts de piété*, firms of bill-brokers, of exchange-brokers or cambists, of stock-jobbers and stock-brokers. No doubt in London the term banker is generally confined to a narrow class of lenders of high and deserved repute. But this makes it all the more necessary in economic science for the term to be used in a wide sense, lest the student think that all givers of credit are of the high position and character of London bankers.

In the following list of the chief functions of banks in the wide sense of the term, let it be understood that some banks undertake one function only, some several, some almost all.

§ 3. **Chief Functions of Banks: I. Specific Deposit.**—To receive in deposit specific goods, in particular bullion and gold and silver coin. The deposit remains in the bank, and the identical coin, or bullion, or other specific article is given back to the depositor when he has no occasion to keep it longer at the bank. This function was formerly of greater relative importance than now.

§ 4. **II. Generic Deposit.**—To receive in deposit, keep safe, and deliver up when required or after due notice, not specific goods, but *generic* or *fungible goods*, such, namely, as are to be restored, not by giving back the identical object deposited, but by giving back its equivalent in quantity and quality. These generic goods deposited with bankers consist of cash and of claims for cash; and the great importance of this function of banks in modern times can be judged by the fact that in the United Kingdom the sum of about seven hundred million pounds is thus deposited.

Of this vast sum a very small fraction is money in the strict sense, or even legal tender; probably not one per cent.

of the deposits being in gold, and over ninety-five per cent. being in cheques or bills, namely, orders to pay either immediately or at some future date, and which as we shall see are only in a very small proportion paid in legal tender either immediately or ultimately.

Under the head of generic deposit come "savings banks" for the collection of small savings, the one conducted by the English Government through the Post Office being conspicuous. The deposits in this kind of bank are largely made in coin; and in other ways they are quite unlike the ordinary banks of deposit and quite distinct from them.

§ 5. **III. Settling Debts.**—This is one of the chief functions of bankers in the United Kingdom, and is both cause and effect of the immense system of deposits already described. For generic deposit (unlike specific) is not made in order that goods may be safely warehoused, but in order that some other advantage may be gained. Part of such deposits (called deposit accounts) are paid for by the banker in the shape of a small interest, and cannot be withdrawn from the bank except after giving notice a little time (such as a fortnight or a month) beforehand. But the other part of these deposits (called current accounts), although they can be withdrawn without notice, yield no interest, and there must be some motive why almost every trader above the pettiest and poorest, and almost every non-trader with any accumulated wealth, keeps such an account. They keep it in order to save the risk, trouble, and inconvenience of making and receiving payments in gold, silver, or bank-notes. They pay instead by written orders on the banker with whom they have a current account, *i.e.*, drawing a cheque on their banker; and he becomes their paymaster, paying the cheques drawn on him, and

also becomes their debt-collector, presenting for payment cheques on their behalf drawn on other bankers, and bills of exchange when they become due. And he is willing to do all this for his depositors because he is able to lend at interest almost all the cash and claims which they deposit with him, for one part of which (the deposit accounts) he pays them a lower interest than what he receives, and for the other part of which (the current accounts) he pays them little or even, according to the rule in London, no interest at all.

§ 6. **Note on the Clearing System.**—The device of simplifying accounts and saving currency by setting off one debt against another is conspicuous in modern English and American banking. The device indeed can be practised without banks, namely, by what is called *book credit*, where two dealers who each require the other's goods, instead of paying at each transaction, allow one debt to cancel the other, and only settle at intervals the balance between them; with great saving of currency and of trouble. This can also be done among members of a bank of specific deposit. Thus in the eighteenth century, two merchants, each having a deposit of bullion at the bank of Hamburg, could transfer bullion from the one to the other without the least risk or trouble by a simple alteration in the bank-books. In modern banks also, all payments by cheque from one depositor in the bank to another can be settled by a mere alteration of figures in the books, the amount of the cheque being deducted from one current account and added to another, with little trouble wanted and no money. And the likelihood of debtors and creditors having the same bank is much greater in England than formerly, because the number of banks is relatively fewer, and many of them have numerous branches. But even where the drawer and receiver of a cheque have different bankers, the principle of clearing renders the settlement of the transaction almost as easy, and money almost as unnecessary. For representatives of all the bankers in a neighbourhood meet at short intervals at a *clearing house*, and there all the cheques and bills of exchange that each banker has to pay are set off against those he has to receive, and only the balance is paid in currency. In this way sums that seem fabulous are paid without any gold being used.

In the great London clearing house, debts to the value of from five to six thousand million pounds are thus settled every year without a single sovereign being used. The very balances are not paid in currency, but in cheques on one central bank (the Bank of England), where all the other bankers keep an account. If *per impossibile* all that vast business could be done without the intervention of cheques and bills, the *annual* charge on the country for the gold to effect it would probably not be less than fifty million pounds.

There are also provincial clearing houses in several towns; also several in Scotland, and one at Dublin. Clearing is still more needful in the United States than in the United Kingdom, because the banks having no branches are very numerous, being nearly seven thousand.

Clearing has been extended in England to railways; they have a railway clearing house in London, where all the cross claims of different companies on each other from through bookings of goods and passengers, are cancelled one by the other, and only the balance paid. Also clearing has been extended to dealings on the Stock Exchange, where bargains are set off one against another on periodical settling days; also in various produce exchanges to bargains such as those in cotton at Liverpool, and in pig iron at Glasgow.

§ 7. **IV. Lending on Pledge.**—To lend cash on pledge is where the borrower makes a specific deposit. Much uncommercial credit is in this form, and will be examined in another chapter. An example of a commercial form of such credit is where a bank advances cash to a trader on the security of a dock warrant, this being a receipt for goods deposited in a dock-warehouse, and entitling the holder of the receipt to the ownership of the goods.

Another example is that of the loans by London bankers to stock-brokers, whereby funds for speculating on the Stock Exchange are provided. The loans run from one fortnightly settling day to the next; and securities (namely, stocks or bonds) are given in pledge to the banker to secure him against loss, the usual practice being that, for every £1,000 lent, securities to the value of £1,100 shall be pledged.

(George Clare, *Money Market Primer*, 2nd Edit. pp. 145, 146. We shall have frequent occasion to refer to this clear and well-written handbook, and to his other work, *The A.B.C. of the Foreign Exchanges.*)

§ 8. **V. Lending on Mortgage.**—To lend cash on mortgage is to lend on the security of specific property that remains not in the hands of the creditor, but in the hands of the debtor. Loans to landowners, mine-owners, railway companies, and other associations holding fixed property, are instances of this function of banks, provided always that the fixed property is pledged for the repayment. This function like the fourth is conspicuous in uncommercial credit. Of commercial credit in this form an example is seen in the loans made to ship-owners on the security of their vessel.

§ 9. **VI. Lending on Personal Security. Bills of Exchange and Bill-Discounting.**—This is the most conspicuous function of modern banks in England and Scotland, and is done in various ways, by far the most important being discounting bills of exchange. A *bill of exchange* in general terms may be described as a written order by a creditor on his debtor to pay a specified sum at a specified time and place to some third party, or to any one to whom that third party may have transferred the bill. Historically they present three features, *first*, a previous and genuine business transaction between the two parties, the debtor having really received goods from the creditor; *secondly*, the introduction of a specified third party at some distant place; *thirdly*, the capacity of being transferred from one

person to another, each person signing the bill before he transfers it, and by his signature becoming a security for its payment when due.

It follows that the bill must, as the technical term is, *become due*, that is, be payable, in a comparatively short time, seldom longer than six months and generally three. The average duration of bills discounted at the Bank of England is not more than sixty-eight days. Some of the technical terms relating to bills of exchange are as follows: the creditor who writes the order is called the *drawer*, the debtor is the *drawee*, and after he has signed the bill, the *acceptor;* the person in whose favour it is drawn is the *remitter;* the person actually in possession of it is the *holder;* all who have had it and have passed it on by signing it, are the *indorsers;* and the bill from its legal capacity of being thus transferred, is said to be *negotiable.*

In modern times in many countries the law has rendered unnecessary the first two features of bills of exchange, and has thus assimilated them to *promissory notes*, that is, transferable promises to pay at a fixed time and place. But although the law may have ceased to frown on those bills of exchange which are founded on no genuine transaction, and are called *accommodation bills*, prudent bankers refuse to look on them with favour.

Bills of exchange are a very ancient contrivance, and their great use in old times was to save the risk and cost of conveying coin or bullion from one place to another. Instead of a waggon-load of silver going from London to York to pay the creditors in York, and passing on the way another waggon going from York to London to pay the creditors in London, this double transfer was avoided by sending bills of exchange drawn by the York creditors on their London debtors in favour of the London creditors, and *vice versa*. No silver had to be sent except as much as was wanted to pay the balance if the total debts on one side exceeded the total debts on the other.

In trading with foreign and distant places this use of bills of exchange has still some importance. But within England they are chiefly employed as a convenient method by which bankers lend and traders borrow. In most wholesale trade, bills are drawn by wholesale dealers upon shopkeepers and by manufacturers upon wholesale dealers, and the holders of these bills, instead of waiting for the cash till the bills become due, take them instead to their bankers and receive cash for the amount of each bill, less a certain deduction called discount, which varies according to the demand for such advances, the supply of funds suitable for making them, and the personal character of the parties to the bill. The **market rate of discount** is that actually charged by the bankers in a given city in cases where the parties are sound and well-known traders. Where, as in London, and many other cities, there is a bank connected with Government, the **bank rate** means the discount charged to creditable traders by the Government bank.

The London bankers, unlike the country bankers, lack time and opportunity to distinguish sound from dubious traders, or what are called "best trade-bills" from "inferior paper." But "the discounter must have the financial and moral standing of hundreds of commercial houses at his fingers' ends." (Clare, *Money Market Primer*, p. 142.) Hence in London bill-discounting has become in part a trade by itself, and certain firms or companies make a speciality of it, and are not called bankers, but bill-brokers and discount houses. They discount the bills of merchants, and then themselves get these bills re-discounted by the regular bankers at a lower rate than what they themselves have charged. In other words, an intermediate lender is interposed between the merchant and the banker.

Besides discounting bills of exchange, bankers can lend

cash on personal security in other ways; for example, allowing their depositors to *overdraw* their accounts, a not unfrequent practice in England, especially in country banking; or they may credit a trader with an imaginary account on which he can draw, as is done in Scotland by those *cash credits* described by Adam Smith. (*Wealth of Nations*, Bk. II. c. ii.)

Observe that where a banker holds large sums deposited on call, that is, where the depositors can take them out without notice, he can only safely make loans for short periods; else, if an unexpected number of depositors simultaneously wish to withdraw their deposits, he may find that he cannot, as he is bound to, pay them then and there, because some time must elapse before he can get back their deposits, which he has lent for a long term. Hence English bankers who hold such large sums on call, are very eager to lend for the short periods implied in discounting bills of exchange, and sometimes charge as little as two per cent. or even less as discount. Thus for six months after a war scare early in 1885 loans for short periods could be had in London at the low charge of one half per cent.

§ 10. **VII. Exchange Business.**—To exchange currency for bullion, bullion for currency, one form of currency for another, bills payable in one place for bills payable in another. In former centuries, when coins were used by traders far more frequently in proportion than at present, when Europe had a great multitude of mints, and when there was great variety in the goodness of different coins, the function known as money-changing was of great importance. In our own times it is by comparison insignificant; but, on the other hand, the business of dealing in claims, particularly bills of exchange, payable in distant places, has grown to a great size in every commercial city. These transactions called in their aggregate *the exchanges*, or by rather a misnomer *the foreign exchanges*, will be treated separately in the next chapter.

§ 11. **VIII. Issue of Bank-notes.**—A bank-note is a written promise of a bank to pay a certain sum in legal tender to the holder of the note whenever he presents it at the bank for payment, in other words, payable on demand. If a bank can induce those who deal with it to take these its notes instead of legal tender, and if these dealers can induce their own creditors and customers to take the bank-notes instead of legal tender, then they enter into the circulation, become currency, and allow the banker to create wealth out of nothing, just like what the Government can do, as we have seen in the last chapter, by substituting a paper for a metallic currency. Now experience has shown that where there is an existing metallic currency and at the same time public security of peace, as for example, during the first half of the nineteenth century, in the British Isles, the United States, and China, bankers have been able to issue notes which in fact have remained for a considerable time in circulation without being presented at the bank for payment in legal tender. Three main reasons for this are, *first*, the great convenience of paper for many purposes of circulation rather than metal; *secondly*, the power of a bank, so that traders are glad to be in its favour by taking its notes, especially when their relations to it are those of borrowers; *thirdly*, the name of the bank inspiring such general confidence in the neighbourhood that few would like to make themselves conspicuous and troublesome by refusing to take the notes in payment; and the smaller the sums for which notes are issued the

more difficult the refusal. Hence in ordinary and quiet times they become like ordinary currency. But then they are separated by the all-important difference from an inconvertible paper currency that they cannot be over-issued, in the sense of more being issued than the total value of the transactions in which it is convenient to use them. If the banks issued more, an equivalent quantity would come back to them for payment.

Beware of the notable error of those who upheld what was called the *Currency Principle* in the earlier half of the nineteenth century. They thought that bankers could "flood" the country with paper, producing an "inflated" or "redundant" currency (a better word would have been a debased currency), and thereby a general rise of prices. This was to confuse the mischief of reckless lending and speculating, of which banks undoubtedly were guilty, with the mischief of depreciating the currency, of which banks were not and could not be guilty. In the United States, indeed, this error had a peculiar ground and excuse in the peculiar history of their banks. For during the early years of the nineteenth century the American banks got such power that their notes were practically inconvertible, and then they ceased to be bank-notes in the proper sense; they both could be and were over-issued; and individuals had to receive payment in them, though depreciated 20 per cent., as though they were legal tender. A very natural confusion arose from the spectacle of these depreciated notes, and it was not perceived that inconvertibility was a condition precedent to over-issue. Similar abuses had occurred in Scotland and in Yorkshire in the eighteenth century, and are described by Adam Smith. (Bk. II. ch. ii. *vers. fin.*)

Another excuse for the mistake was the prevalence of an opposite error known as the *Banking Principle*, according to which bank-notes were not currency at all, but merely a form of credit not to be distinguished from other forms, and requiring no special regulations, and absolute free trade in banking was to be permitted. These points are scarcely now maintained by any one; whereas the error of the currency school has still some vitality.

§ 12. **Advantages of an Elastic Currency.**—One great advantage of bank-notes is the ease with which they can be

adapted to fluctuating demands for currency. And these fluctuations are often considerable. Thus even in England, where industry is so varied and so continuous, with so little interruption from the seasons, considerably more currency payments in proportion to the rest of the year are made from early September to mid-November, the reason being the payments for the harvests at that time, and for holiday making, notably railway fares. The extra gold coin alone for the home circulation of England and Wales averaging about seven million pounds, to say nothing of the English gold coin used by travellers abroad, and that sent to Scotland and Ireland. (In banking circles this extra use of coin is called, not very correctly, *the autumnal drain*.) Again, where salaries and rents are generally paid only at certain periods, such as the half-yearly terms (May and November) in Scotland, much more currency is required at those periods than during the rest of the year. Still greater are the fluctuations in agricultural countries, like Canada, where it has been reckoned that 20 per cent. more currency is needed during the four busy months of the year than during the eight quiet months.

To meet all such fluctuations the simple and obvious method appears to be the elastic currency of bank-notes. For instead of having to keep a number of coins lying idle, in Canada, for example, during the eight dull months in order to have sufficient for the four lively months, all that has to be kept is a stock of paper. This paper, when the demand for currency expands, the banker can "issue" in the shape of bank-notes by making his payments or loans in them; and then, when the season is over and the demand for currency contracts, the paper comes back to him, not (except a very small portion) to be "presented for payment," *i.e.*, exchanged for gold; but either to repay what the banker has advanced to the holders of the paper, or else to be placed with him as a generic deposit, that is, in banking phraseology, to be placed to the credit of their accounts.

§ 13. **Question of Free Banking.**—Are banks to be allowed to issue bank-notes at their pleasure? Never quite at their pleasure, because many people are practically compelled to take the notes, and the compulsory risk should be met by compulsory security. Many methods of effecting this have been practised and proposed: probably where the issue

of notes is allowed at all to banks, other than a Government bank, the best method is to require them to lodge in some public office good securities covering the notes, and specially pledged for their repayment in case of the failure of the bank.

If this is done the objections disappear which have been made to bank-notes for small sums, that they encourage beggarly bankers and are liable to make the poorer classes suffer great hardship if the bank fails. And another advantage is that the unity of the currency is not broken: each banker's notes are current not merely in his own locality, but throughout the country, as the Government holds the securities that make them safe. This is what happens in America: the notes of an authorised bank in Texas will circulate in New England, and *vice versa*. Such notes are called national bank-notes; for though bearing the name and mark of the particular bank that issues them, they are originally sent to that bank by the Treasury Department. The banks themselves, though private institutions, are called national banks. But the American system would provide a more elastic currency if the prohibition of notes under five dollars were removed, this being an illogical restriction if the notes are secure; and secondly, if the securities given in pledge by the banks were not limited to United States bonds, which now yield so small an interest that the banks have scarce sufficient inducement to issue notes.

In Canada, the main precautions for the security of the bank-notes are fourfold: (1) Only banks with a very large subscribed capital may issue them. (2) The notes are the first charge on the assets; *i.e.*, are paid before the deposits or any other claims are paid. (3) The liability of shareholders is double; *i.e.*, if you hold 500 dollars in shares, you are liable for 1,000 dollars. (4) A deposit is made by each bank with the Government equal to five per cent. of the average circulation of its notes. (See Walker on Banking in Canada, in the *Economic Journal*, June, 1894.)

The Scottish system of mutual responsibility of all banks of issue for bank-notes only, not for other liabilities; and the unlimited liability of shareholders for the bank-notes only, not for other liabilities, is described by Nicholson, *Political Economy*, II. pp. 192—194, and seems to work satisfactorily.

Other methods of preserving the solvency of banks of issue are less satisfactory. To put a maximum limit to the amount of notes issued, is no security for the holders of the notes, but

only a security that their aggregate loss will not exceed a certain amount, and thus but cold comfort. To compel a banker to keep always either a minimum deposit of gold, or a stock of gold in fixed proportion to the notes, gives but a partial security, and is liable to accelerate the banker's failure by preventing him using his reserve precisely when he is most in need of it.

But some ask why the profit from the issue of notes should fall to private traders and not rather to the nation at large in the form of convertible notes issued by the Government or by a Government bank? The question is quite an open one, and the state of society and character of the Government may make all the difference. Where banking is deficient and desirable, the permission to issue notes may be a useful stimulus to establish it. Where a Government is untrustworthy, the monopoly of a convertible paper currency is a temptation to turn it into an inconvertible one. Often a compromise is a good plan, as by allowing private banks to issue well-secured notes, and to pay a tax for the privilege.

The Bank of France, founded in 1800, has remained unshaken amid the political vicissitudes of the nineteenth century, and bears a very high character. It has enjoyed since 1848 the exclusive right in France of issuing bank-notes; in return for which privilege it is bound to lend to the Government a certain amount gratis, and to pay annually about a hundred thousand pounds; also to establish a branch in each Department of France, even in the poorest; also it may not give any interest on deposits, nor discount any bills of exchange that are backed by less than three signatures, or are for a term of more than 90 days; and may only make advances on certain specified securities. The total issues (by laws of 1883 and 1893) must not exceed the limit, that has never in fact been approached, of about 160 million pounds (4 milliards of francs); and a two-pound note (50 francs) is the lowest issued.

§ 14. **The English Bank Act of 1844.**—The Bank of England was founded in 1694 to give financial support to the Government of William III. against James II., and was by charter created a joint stock company with limited liability. From 1708 till 1826 it possessed a monopoly of banking on a large scale because no bank in England and Wales was allowed to have more than six partners; but it possessed no monopoly of issuing bank-notes. In 1826 the one monopoly was taken away, and joint stock banking allowed; but another monoply was created, and the Bank of England was given the exclusive privilege of issuing bank-notes within a radius of 65 miles from St. Paul's in London. In 1833 the notes of the Bank of England were made legal tender in England and Wales except by the Bank itself, which cannot compel its creditors to take its notes. Finally in 1844, under the influence of the error known as the currency principle (already described), the famous Bank Act, which is still in force, was passed, having for its chief purposes to prevent the over-issue of bank-notes and to secure that the notes of the Bank of England should be ever convertible into gold. But this was only preventing a danger that was no danger, and making safe what was safe before; while the Act by continuing the prohibition (by the Act of 1826) of bank-notes under £5 has compelled us for lack of small notes to resort to transmission of coin, use of postal orders, or of cheques for small sums; further, by hindering an elastic currency has rendered the rate of discount more fluctuating; moreover, has failed to provide

any solid security for the five millions of English country bank-notes, and still less for the seven hundreds of millions of deposits in the banks of the three kingdoms; lastly, as we shall see, has hampered the Bank of England in the good work of giving help to other bankers and traders in times of panic.

No doubt when the Act was passed the circulation of bank-notes in England was relatively of far greater importance than now; the total liabilities of bankers on notes have somewhat decreased even absolutely, while relatively to the liabilities on current and deposit accounts, have become insignificant. Hence the passing of the Act was more defensible than its continuance.

Another difference from the present day was the importance and number of "private banks." The business of banking, in the narrow sense of the word common in England, is now almost all done by joint stock companies, and almost all the private partnerships have been converted into such companies or have been absorbed by them. But when the Bank Act was passed joint stock banks were comparatively new (having been forbidden before 1826), and the three great categories of banks appeared as (1) the Bank of England; (2) the private banks, and (3) the joint stock banks. At present a more convenient and logical division would be into (1) Government or official banks; (2) ordinary banks, and (3) co-operative banks.

§ 15. **The Chief Provisions of the Bank Act.**—(*a*) The Bank of England to be divided into two separate departments, the liabilities and assets of each to be shown separately in a weekly statement to the Government (known as the Bank Return); the one department called the Banking Department to be left quite free to do any banking business except the issue of notes; the other department called the Issue Department, to be bound by strict rules limiting the issue of notes. (*b*) The Issue Department to be allowed to issue bank-notes to the value of £14,000,000 against securities (a Government debt to the Bank of over eleven millions being the chief item among them). (*c*) For every note issued above this fixed sum an equivalent to be held in gold coin or gold and silver bullion. (*d*) The Issue Department to be bound to give notes in exchange for gold bullion at the rate of £3 17*s.* 9*d.* per ounce to any one who tenders the bullion.

(So besides the Bank's previous obligation to give gold for notes, there was the new obligation to give notes for gold.) (*e*) No bank that had not previously issued notes to be allowed to issue them henceforth. (*f*) The existing banks of issue to limit henceforth the total amount of their issues to their average circulation during the early part of the year 1844. (The aggregate of such issues was £8,631,647 divided among 280 country banks.) (*g*) Such banks of issue, if once they ceased issuing, never to resume the privilege, and to lose it if bankrupt. (*h*) On such lapses of issue, the Bank of England to be allowed to increase its circulation against securities by two-thirds of the amount of notes thus lapsed. (Hence by 1891 the original £14,000,000 of authorised circulation against securities, mentioned under "*b*" above, had risen to £16,450,000.)

Similar provisions were applied in 1845 to Scotland and Ireland, with the difference that notes as low as one pound were allowed; and all banks of issue had the slender privilege of issuing more notes than the fixed amount, provided they kept in their vaults an amount of coin or bullion equivalent to the average monthly circulation of such extra notes. The advantages to Scotland from these mitigations of the Act are described by Professor Nicholson. (*Political Economy*, II. pp. 189—191.)

§ 16. **IX. Dealing in Securities.**—This function of dealing in shares, stocks, and bonds, and of directing investments and promoting new undertakings, will be explained more conveniently in the chapter after the next.

§ 17. **X. Banking for Government.**—Much of the work done by banks for private individuals, for firms, for companies and corporations, such as receiving deposits, making loans, paying and collecting cash and claims, can be done for Governments; and the vast sums collected and expended by modern Governments make it convenient for them to have a bank more or less officially connected with the State.

For the United Kingdom this office is fulfilled by the Bank of England. Among its deposits the largest account is that of the British Government, which keeps with it an habitual balance of several millions. The Bank greatly facilitates the collection of the taxes, which the collectors from Kent to Donegal, and from Cornwall to the Hebrides, pay into the Bank of England at the rate of over a million pounds a week. And the cash is drawn out again as wanted, notably at quarter-days to pay salaries and the interest on the National Debt. The Bank is in fact the British treasury, and acts as paymaster-general; also if at the end of the year there is not enough to meet the heavy New Year payments, the Bank advances a loan, on the security of what are called Deficiency Bills, and is repaid out of the January revenue. The National Debt is also intimately connected with the Bank, which was in fact first established by the Revolutionary Government to facilitate the raising a loan of £1,200,000 at 8 per cent., and which now manages all payments of the interest of this debt, all transfers of the principal from one person to another. This is a serious work, as about 270,000 separate holders have to be paid four times a year, and about 96,000 transfers are made annually. Hence a subsidy of about £200,000 is paid annually by the Government to the Bank of England for doing this work, which requires a staff of nearly two hundred persons.

CHAPTER IX.

THE FOREIGN EXCHANGES.

§ 1. **The Foreign Exchanges in General.**— If we put aside technicalities and the confused terms of London traders, which have rendered the theory of the foreign exchanges one of the most complicated parts of economics, the inquiry is simply into the balance of international indebtedness, the instruments adopted to effect a settlement, and thirdly the variations in the cost of these instruments to those who have to use them. (Nicholson, *Polit. Econ.* II. p. 272.) The first inquiry has already been made (in chap. v.); it remains to make the two others.

We have seen in the last chapter the nature and advantages of bills of exchange in general.

The term *foreign bills* is used for those drawn at home on a foreign city, or drawn abroad on a home city, or both drawn abroad and made payable abroad, but negotiable at home (*i.e.*, transmissible legally from hand to hand by the mere process of indorsement). The term is also used to include not merely ordinary trade-bills, but also bankers' drafts and cheques drawn on foreign banks, and even to telegraphic transfers, now much in use, and which may be regarded as bills of exchange drawn at sight. (Clare, *A.B.C. of the Foreign Exchanges*, pp. 2, 17, 29.)

The demand for foreign bills arises somewhat as follows. A London merchant who has to make

currency payments in a distant place, say Calcutta or Sydney, wishes to find at home another merchant to whom payments have to be made in Calcutta or Sydney, and to buy his claims (called "buying remittances"), and the other merchant wishes to sell them (called "selling his drafts"); and the reason for their thus wishing is that the first merchant will then no longer have to *send* gold, silver, or simple merchandise convertible into the currency of Calcutta or Sydney, and that the second merchant will no longer have to *fetch* gold, silver, or merchandise. The cost to each of respectively sending and fetching puts the limit to what the buyer of the bill will pay above its nominal value, and to what the seller will take below its nominal value.

These extremes are respectively called outgoing and incoming **specie point.** Specie is used to include standard coins and bullion; and specie point means a point in the rising or falling price of foreign bills of exchange when in ordinary times it becomes profitable to have specie transmitted rather than buy or (respectively) sell bills. But the point cannot be fixed with exactness, because the charges vary with individual traders, some having to pay more for freight, insurance, and commission than others; charges, moreover, being less when operations are on a large scale. (See Clare, *Money Market Primer*, pp. 78, 79.) Notice that under extraordinary circumstances, such as the state of panic in the United States when the Civil War was impending in 1860-61; or the scarcity of coinage in Australia in 1852-53; foreign bills can fall in price below specie point; and can rise above it when there is a sudden demand for the exportation of gold from a country with an inconvertible paper currency, as was the case with England on the news of Napoleon's landing from Elba. (Mill, *Polit. Econ.* Bk. III. ch. xx. § 3, note.)

Where the price between these two extremes will rest depends immediately on supply and demand; for there is a market for such claims

conducted by bankers or intermediaries called bill-brokers. All that can be said in general is that in proportion as a city is a creditor-city, habitually receiving more than it sends out, for example, London, the exchanges will be what is called in its favour, that is to say, more of the inhabitants of Calcutta, Sydney, and other towns will have bills to pay in London than to receive in London.

A creditor city, from the very fact of its being such, is likely to have a very stable currency, complete political security, and great facilities for lending; and these circumstances are likely to make it a favourite settling-place for dwellers in less favoured centres. Now London is pre-eminently the great creditor city; and thus the larger part of the foreign bills there dealt with, have been drawn and negotiated abroad, and are accepted and paid in London. Thus also the exchanges are of more interest to foreign than to English traders. (G. Clare, *A.B.C. of the Foreign Exchanges*, pp. 12—15.)

§ 2. **The Mint Par of Exchange.**—The phrase "The exchanges" is used for two different things which must carefully be distinguished. In one sense it is simply the expression of the money of one country in terms of the money of another country, and has nothing to do with the course of trade or relative indebtedness. Thus the English sovereign is equivalent approximately to 25·221 French gold francs, or to 20·430 German gold marks, or to 4·866 United States gold dollars. Where countries use the same metal for their money such relation of their standard coins is called the *mint par of exchange*, and is a mere matter of physical measurement, just like saying that the French kilogramme is equivalent to 2·204 lbs.

Hence, as long as there is no alteration of the standard coinage in either country, the mint par of exchange between the two must remain the same, just as the relation between yards and metres remains the same.

But it is quite otherwise between places using different metals as their standard, or, in the case of an inconvertible and over-issued paper currency, using the same metal, but a fluctuating quantity of it as the standard. In such cases there can be no fixed par of exchange, only an average of value can be struck, as of the Mexican silver dollar, valued in 1898 at a little under 23 pence, and the Brazilian paper milreis at a little under 8 pence; and the exchanges will vary with every fluctuation in the relative value of gold and silver, or with every variation in the amount to which the paper currency is depreciated. Thus the Mexican dollar had been valued in 1890 at about 40 pence, and the Brazilian milreis at about 17 pence; and the exchanges in 1890 and 1898 varied accordingly.

§ 3. **The Real or True Rate of Exchange.**— The exchanges in this sense are not the expression of the relative value of two currencies, but the expression of the commercial relations between two trading centres; and mean the price in one commercial capital of bills of exchange, cheques, or kindred documents, payable in another commercial capital. Whenever there is a fixed par of exchange between the currency of the two places, the price of these bills can be understood at a glance. Thus in the trade between London and Paris, if bills on London (*i.e.*, payable in London) are sold in Paris (by exporters of French produce) for more than 25·221 francs to the sovereign, the exchanges are technically said to be *adverse* or unfavourable to Paris; simultaneously bills on

Paris are sold in London (by exporters of English produce) for less than a sovereign to 25·221 francs, and the exchanges are said to be *favourable* to London. And *vice versa* if bills were bought or sold for less than 25·221 francs to the sovereign.

Where there is no fixed par of exchange the true rate of exchange cannot be ascertained at a glance, and we must first calculate the value of the two currencies. Thus in the reign of William III., as Adam Smith points out (Bk. IV. ch. iii. *ad init.*), though the computed exchange with Holland was 25 per cent. against England, the real rate may really have been "in favour" of England, because the English coin at that time was so degraded as to be rather more than 25 per cent. below the standard weight.

Similarly between London and New York in the decades after the Civil War, and between London and Buenos Ayres during the last decade, the exchanges were quoted as in favour of London by much over 100 per cent. This did not mean the absurdity that bills were really bought and sold at more than 100 per cent. above specie point; but merely that the money of New York and of Buenos Ayres was depreciated more than 100 per cent., while the exchanges were still nominally quoted in terms of the former undepreciated money of these cities.

Monetary causes, therefore, may affect to any degree the *nominal* exchanges; but the *real* exchanges depend on commercial causes. Of these the chief is the balance of indebtedness between the two trading centres. But simply to say this is not enough, as the balance is affected by several complications. First of all the debts due in one place may be paid with bills owed in another place. Thus the Chinese taking more goods from England than they send thither, and sending to America more goods than they get thence, square their accounts by transferring their claims on their American debtors to their English creditors. Then again, as the rate of discount varies in different places, the loss of interest where bills are payable only after several months (called long bills as distinct from short bills) is more in one place than another, not to speak of the varying uncertainty of solvency, or the peculiarities of credit in countries whose exports, being mainly land-produce, are hardly available for exportation except during the two or three months that follow the harvest.

From all these complications and the consequent daily variations of the different exchanges, it follows that there

is room for much sagacity and much speculation in dealing with bills of exchange, currency, and bullion, so as to meet the balances between different commercial centres. This business is known as arbitration of exchange or *arbitrage*.

§ 4. **Gold and the Exchanges.**—The Mercantile Theory of economics favoured an abundant circulation of the precious metals (mistaking a possible evidence for a certain cause of wealth); and also an accumulation of the precious metals to serve as a powerful engine of war. Hence a condition of the exchanges which implied a balance due to a home city was called favourable because the balance was payable in the precious metals; and the exchanges were called unfavourable, or by some similar term of disapproval, when they showed a balance owed to the foreigner, which would draw away the precious metals from the home country. And if these phrases were due to the "prejudice" that the inflow of gold and silver was a blessing, their outflow a calamity, Mill is right in saying that "the phrases in turn tended to maintain the prejudice." (Bk. III. ch. xx. § 2.) For in spite of his teaching and Adam Smith's before him, this "prejudice," as a glance at any financial newspaper or "City article" will show us, continues to this day.

At first sight such an opinion seems quite irrational. For if there is a balance due, for example, from London to Berlin, and gold is actually sent out of England to discharge the liability, this is only done because it is the cheapest way of paying the debt, gold being easily transportable and everywhere acceptable. But the balance need not be paid in gold; it can be carried over and gradually met by increase of English exports and decrease of English imports; or it can be paid at once by the transfer from debtor to

creditor of international securities, namely, by the transfer of those Government Stocks, or bonds and shares of great corporations such as are quoted on the chief Stock Exchanges. And when in fact gold is sent, the uneasiness which this causes in the City of London appears mistaken. The richest city in the world can easily procure from bullion dealers all the gold it requires; and there has been no scarcity of gold, no buying it at a premium from bullion dealers, since the inconvertible paper currency ceased in 1819 (called the Resumption of Cash Payments); not even in the times of commercial crisis in 1847, 1857, and 1866. (See Bonamy Price, *Principles of Currency*, Lect. VI. and Appendix I. 1869.) Hence at first sight it seems that we might as rationally be in trouble about the export of British hats, and in terror of having to go bareheaded, as to be troubled about the export of gold.

§ 5. **The Rate of Discount and the Exchanges.**—Further, on the view of "adverse exchanges" being a national evil, and that they cause a "drain" of gold, which must be checked, it is a common theory that they can be "corrected" by raising the rate of discount, and also that the cause of high rates of discount and of high interest for short loans is the drain of gold. But these theories seem to mistake the order of causation. It is the desire or the necessity of making payments abroad that is the cause both of the export of gold and of the rise in the rate of interest. For in order to make these payments, recourse is had to bankers, current and deposit accounts are lessened, and simultaneously the demand for discounts and loans is increased. Obviously then each banker with increasing calls and diminishing resources, will charge more for his advances; but "the gold as gold has no part in the matter, . . . the same identical effect would be produced if the contract were to supply yarns or any other English goods instead of gold." (Bonamy Price, *Ibid.* p. 217.) No doubt the rise of the rate of discount and interest acts upon the exchanges: "the higher the rate of interest [in a town], the less will be gained by sending long bills [thither] for the purpose of getting them discounted; there will be thus an inducement to let them await maturity." (Bastable, *Theory of International Trade*, p. 92.) Also an adverse exchange tends to "correct" itself. For example, if in London the exchange on Paris is adverse, this means that those who have to receive cash in Paris will gain; and thus an adverse exchange is a premium to exporters, who are thereby enabled to sell their bills on Paris above par; and the probable increase of exports is likely to cause a rapid adjustment of international indebtedness.

It seems to follow from the foregoing that the state of the exchanges is not a grave matter of national concern. Naturally it is a grave matter to individual bankers, bill-brokers, and traders, to whom a turn in the exchanges one way or the other may make a difference of many thousand pounds. And the discount-brokers described in the last chapter, who work almost entirely on borrowed capital, being liable to serious loss if there is a quick rise in the rate of discount, their concern at any outflow of gold, which may be a signal for such a rise, is intelligible. (Clare, *A.B.C. of the Foreign Exchanges*, ch. xx.) Only the discount-brokers and the English people are not synonymous.

§ 6. **The so-called Money Market.**—Economists have had frequently to point out the ambiguous character of this phrase, which ought to mean in England a market where gold coin or gold bullion is sold, but which in fact means the market for loans, in particular the short loans of commerce, both those that take the form of discounting bills of exchange, and other forms. All these loans are undoubtedly expressed in terms of gold sovereigns, and all are payable in gold coin or in Bank of England notes. But none of these loans, except an insignificant fraction, are either handed over to the borrowers or restored to the lenders in gold, and are never meant to be. They are in the form of figures on bits of paper and in books—figures which represent goods, figures which register transfer of ownership of goods, figures which give control over goods and control over men, the command of

labour and capital; but they are not in the form of money.

So Mr. Pownall, in an article on Bank Reserves in the *Economic Journal*, September, 1899, gives the following statistics:

Use of Coin and Cheques in London Banks.

	1864.	1881.
Coin	·6	·728
Notes	2·6	2·039
Cheques and Bills	96·8	97·233
	100	100

In spite of such facts loans are habitually spoken of by commercial men as loans of money; if they are granted on easy terms it is said that "money is cheap," "the money market easy;" if on hard terms, that "money is dear," "money scarce," "the money market stringent;" and if the rate of interest rises or falls, this is expressed by saying that the "value of money" has risen or fallen. But as Bonamy Price well said, they do not play such tricks with language and escape with impunity (p. 182); and by habitually speaking of loans as if made in gold, they come almost to think so; and their language invites confusion. Hence such an able work as Goschen's *Theory of the Foreign Exchanges* is rendered a puzzle to students by this unfortunate ambiguity.

Dr. Sidgwick, in his chapter on the Value of Money (*Polit. Econ.* Bk. II. ch. v. §§ 4 and 5), well points out this confusion, and the double sense of the phrase value of money, namely, the general purchasing power of the currency, and also the rate of interest or discount. But his use of the word money in a somewhat wide sense so as to include cheques, seems liable to disguise the real nature of what is commonly called a loan of "money."

§ 7. **Grounds for the Anxiety about Gold.**—In spite of the foregoing remarks, the anxiety about gold is not to be dismissed as irrational, a mere belated revival of the Mercantile Theory, or at best only a matter of concern for a certain class of traders. Such indeed is the argument of Bonamy Price in the Lectures on Currency already referred

to and delivered at Oxford in 1868. But even at that time he failed to appreciate the peculiar conditions of English banking and its single reserve system (as we shall see). And since then a new cause has arisen to produce "the struggle for gold," namely, the growth of the military spirit, of vast armaments, and the consequent desire of the great military powers to possess in some shape or other a vast hoard of gold to serve as a war chest.

The following figures are given by Mr. Pownall from the *Economist* of 20th May, 1899:

Gold and Silver in State Banks.

	Sterling.
Bank of England—Both departments	30,000,000
Bank of France—	
Gold 73 }	
Silver 48 }	121,000,000
Austro-Hungarian Bank—	
Gold 30 }	
Silver 11 }	41,000,000
Bank of Russia—	
Gold 93 }	
Silver 5 }	98,000,000
Imperial Bank of Germany	45,000,000
New York Associated Banks—	
Specie	40,000,000
Legal tender	11,000,000

It is difficult to believe that the four great military Powers of the European continent are all mistaken on the military advantage of the possession of a large store of the precious metals. And if they are right, the annual cost of keeping this store, principally a loss of interest of some fifteen million sterling, if distributed among the four Powers, is but a small item in the sum-total of their military expenditure.

In England a peculiar ground for anxiety is the peculiar system of banking with but one reserve for the whole country, and requires to be considered somewhat in detail.

§ 8. **Single Reserve System of English Banking.**—In the last chapter we saw that hundreds of

millions, not of money, but of claims reckoned in money, are deposited with bankers who make use of them in various kinds of loans. Now much of this vast sum can legally be withdrawn from the banks on demand in gold or in Bank of England notes; and the remainder can be withdrawn at short notice. But were every depositor to use his legal power simultaneously, no bank could meet its obligations. The whole system is one of trust: trust on the part of the depositor that the bank will not use the deposits for any purposes that are unsafe; and trust on the part of the bank that the depositors will not in great numbers suddenly demand legal tender for their deposits. But every bank must be and is prepared to meet moderate withdrawals—to pay legal tender over the counter to those who present cheques for payment. For this purpose they must and they do keep a certain stock of Bank of England notes, of gold, and of silver as "till-money" or "loose cash;" but for all the banks of England and Wales together not more, it has been reckoned for the middle of 1899, than about thirty eight millions. This is enough for all ordinary times, and if there comes a time of emergency they fall back on the Bank of England, whose reserve of legal tender is therefore the one emergency reserve for the whole country.

Now the Banking Department of the Bank of England does business to some extent like any other large bank in London, but only to some extent. For the nature of its two chief depositors, the British Government and the clearing banks, the first of which will not, and the second practically cannot withdraw their deposits unexpectedly (a balance for

clearing must be kept), render the bank very secure; and indeed in every recent panic, far from there being a "run" upon it, the deposits have increased, for example in 1890 in the Baring crisis, from twenty-five to thirty-two millions. Theoretically then it might keep a smaller reserve than any other bank; but in fact, whereas on an average other English banks for every pound deposited set aside less than two shillings (probably less than eighteen pence) for withdrawals, and invest the rest, the Bank of England sets aside as much as nine shillings. (Clare, *Money Market Primer*, p. 49, and Pownall, *Economic Journal*, Sept. 1899). And it has done this ever since the crisis of 1866, not as a legal obligation, nor for its own safety, but as an onerous public duty and for the safety of other banks and financial houses.

But although the Bank of England does fulfil the office of a central reserve, and freely lends its notes in times of distrust to really solid bill-discounters, and others; still it is greatly hampered in this work by the Act of 1844. All that is wanted is an abundance of notes for a brief period; and the Act, as we have seen, forbids this abundance, as fresh notes can only be issued against gold, and gold cannot be obtained on a sudden emergency. Hence in the three panics of 1847, 1857, and 1866 the Government suspended the Bank Act and allowed the Bank to issue notes against good securities in excess of the authorised amount, and thus replenish its banking reserve. In 1857 notes in excess were actually issued, but in the other two years the mere knowledge that the Act was suspended restored confidence. In the crisis of 1890 instead of a suspension of the Act the Bank borrowed three million sterling in gold from the Bank of France, and over a million from Russia. It seems, therefore, that a modification of the Act would avoid these somewhat violent measures and the very high rate of discount which accompanies them, besides frequent lesser rises of the rate when the Bank reserve is diminishing. And as far as genuine commercial transactions are concerned and the solvency of British banks, the matter might be settled by allowing the Bank of England to exceed the authorised issue any year for some short period; and if the excess-issue was extended over a longer period, to pay the Government a certain interest (a principle adopted for the Imperial Bank of Germany) on such excess. For the present also some additional power of note issue seems needed to meet any sudden withdrawal of deposits for the Post Office Savings Banks. For the British Government conducts (at a loss) a vast system of banking, meant originally for the poor, but (especially since 1893, when as much as £50 a year might be deposited) used largely by

the middle classes; and is liable for a vast sum withdrawable on demand in gold or notes, and amounting in 1898 to over 123 millions.

§ 9. **Political Danger from Small Reserve.**— The real danger is not so much commercial as political.

At present "whenever a foreign nation happens to want gold, whether to strengthen bank-reserves, for coinage purposes, as backing to a note-issue, or for any other purpose, the quickest and least troublesome way of obtaining it is to buy bills on London, remit them here for discount, turn the proceeds into Bank of England notes, and cash the notes at the Issue Department." (Clare, *Money Market Primer*, p. 67.) The result of such an operation, supposing the sum withdrawn in gold to be two millions, is that the next weekly Bank Return shows, as regards the Issue Department, two millions less notes issued and two millions less gold held; while as regard the Banking Department, there are two millions more under the head of "other securities," and two millions less notes in the reserve. To prevent the reserve falling lower the Bank may be obliged to raise its rate of discount and disturb and inconvenience many traders simply through the working of the Bank Act, when the state of trade by itself and the balance of indebtedness would require no rise in the Bank rate. For mark that the "foreign nation" cannot "buy bills" for nothing; the Bank does not part with the gold for nothing; and out of the proceeds the gold can in due course be replaced, and the Bank or other London houses make a profit out of the whole transaction. But the Bank is practically forced to check such transactions by a high rate of discount, which renders it no longer profitable to foreign nations to obtain gold from London.

And all the while it is not in these *bona fide* commercial dealings of foreign Governments, much less in private trade that there is danger; but in the possibility of a hostile Government deliberately causing a commercial crisis. And here again the Bank Act strains at a gnat and swallows a camel. For just as it makes secure the bank-notes and fails to make secure the immensely more important

deposits (as we have seen); so it hinders the *bona fide* withdrawal of gold by foreign Governments, but fails to hinder the *mala fide* withdrawal of gold in immensely greater quantities which might be effected if a foreign Government held large sums deposited with English bankers and withdrawable without notice. It is said that large sums are so held; what is certain is that there is no law to prevent them being so held; and the danger seems to call for some remedy.

Mr. Pownall proposes that all banks should be compelled to hold an average of gold and Bank of England notes equal to fifteen per cent. of their deposit liabilities; this would be about one hundred and seventeen millions; and as a great part would be in notes, the result would be that some sixty millions of gold would have to be deposited in the Issue Department of the Bank of England. (*Economic Review*, Sept. 1899.) This remedy would be efficient but costly; and it seems probable that we could purchase security on easier terms if only we first agreed to amend the Bank Act.

§ 10. **Note on Money and International Trade.**—The foregoing sections will have prepared us to reaffirm Adam Smith's doctrine of the comparative unimportance of the movements of the precious metals in international trade, and to fix our attention on the condition of agriculture and manufactures rather than on the mechanisms of transferring ownership and reckoning obligations. The foreign exchanges may be considerably affected without this being a matter of immense importance—certainly of no greater importance than any considerable change in the price, for example, of iron or wool.

The relations of money and foreign trade may perhaps best be indicated by first giving the famous sentence of Ricardo, cited and approved by Professor Bastable (*Theory of International Trade*, p. 55), and then adding the necessary amendments:

"Gold and silver having been chosen for the general medium of circulation, they are, by the competition of commerce, distributed in such proportions amongst the different countries of the world as to accommodate themselves to the natural traffic which would take place if no such metals existed, and the trade between countries were purely

a trade of barter." (*Principles of Political Economy and Taxation*, ch. vii. p. 117, Edit. Gonner.)

First amendment: either add after the words gold and silver—"if they remain at a fixed ratio and can thus be treated as a unit;" or else strike out one of the metals, and afterwards insert "gold-using" or "silver-using," as the case may be, before countries.

Second amendment: add at the end the words—"always supposing that no effort is made by Governments to gather a store of the precious metals." They can be gathered together just as a collection of works of art, and not merely can, but are. So the Imperial Bank of Germany, though it cannot legally refuse to pay gold for notes, considers it an unfriendly and unpatriotic action to draw out any serious amount of gold for exportation, and is so powerful that few bankers in Germany dare offend it. It was thus able in the space of seven years to add about nineteen million sterling to its reserve of metal. (Clare, *Money Market Primer*, pp. 116, 117.)

Third amendment: add at the end of the second amendment—"and always supposing that there is neither debasement nor enhancement of the currency." For such changes drive the metals, as we have seen, hither and thither with little or no reference to the state of trade in other goods; and thus the "natural traffic" rather "accommodates" itself to the movement of metal, than the movement of metals to the natural traffic.

§ 11. **Does Depreciation foster Exports?**—It is a much disputed question whether a depreciation of money acts as a bounty on exportation to countries where there has been no corresponding depreciation. As far as such a question can be answered without regard to the special circumstances of each country, we can answer with Professor Nicholson as follows. "A temporary stimulus is given to exports and a check imposed on imports. The exporter will sell for the same price abroad—that is to say, reckoned in gold—and unless all the nominal expenses of production—wages, transport, &c., reckoned in paper—have risen equally with gold, he will gain an exceptional profit by converting the gold (or its equivalent) into paper. Conversely, the importer must raise his prices as fast as the exchange falls (or the premium on gold rises), in order to remit the same amount in gold (or its equivalent) to the foreign country; but this rise in prices so far tends to check the demand.

"The immediate effects of a fall in the gold price of silver on the trade between gold-using and silver-using countries are similar. If exports from silver countries obtain the same

gold as before, this gold obtains more silver and there is a stimulus to export until either silver prices rise or gold prices fall. Conversely there is a check to imports—until a readjustment of prices takes place." (Nicholson, *Political Economy*, II. pp. 285, 286.)

In the same way an appreciation of money may act as a discouragement to exporters; and these theoretical statements seem on the whole confirmed by the examples of Mexico, Japan, Argentina, and British India during the two closing decades of the nineteenth century.

§ 12. **Do the Exchanges affect Prices in General?**—Apart from any alterations in currency, and keeping wholly to cases where the nominal rates of exchange are just the same as the real or true rates, we meet the theory of Ricardo and Mill, that an unfavourable exchange affects the general purchasing power of money by driving out gold and lessening the quantity in circulation; and that by the consequent fall of prices in general at home and their rise abroad a check is given to imports and an encouragement to exports, whereby the exchanges are turned in our favour, the gold comes back to the country, and prices return to their old level.

In reality, as we have seen, if gold is sent away at all when exchanges are unfavourable, it is only sent as being the cheapest thing to send, and the general currency is not affected. If it began to be the least affected, the bullion dealers would quickly bring gold to the Mint. And, in fact, the gold coin used in the internal circulation of the United Kingdom regularly ebbs and flows at certain seasons of the year (according to the variations in the number of payments to be made) quite independently of the state of the exchanges or the rates of interest and discount. (Thomson Hankey, *Principles of Banking*, 4th Edit. p. 146.) "The ordinary movements of the currency, being foreseen, are provided for in anticipation, and rarely have effect on the Bank-rate." (Clare, *Money Market Primer*, p. 57.) Gold also is in fact often imported and exported simultaneously; it is not the currency that is affected by these movements, but the stocks of dealers and bankers; and we have no need to make the extravagant supposition that two whole countries at least must suffer twice over a grave disturbance of prices before the balance of trade between them can be adjusted.

On this subject the student may be referred to the lucid pages of Professor Nicholson, *Political Economy*, II. pp. 287—293.

CHAPTER X.

USE AND ABUSE OF COMMERCIAL CREDIT.

§ 1. **Great Power of Credit and Banking.**—In consequence of the system of banking described in the previous chapters, much of the new direction of a country's industry lies in bankers' hands. Instead of the increasing articles of wealth or the increasing numbers or capacity of the inhabitants of a country being employed in enlarging or improving the branches of production in which they are already engaged, the particular gardens, farms, pastures, woodlands, mines, quarries, factories, workshops, roads, railways, dwellings, where they are at work, they are often directed to different farms and factories, or from one industry to another, because the direction of industry is settled in a large manner by the banks, that is, if we take banks in the widest sense to include all agencies for commercial credit. In popular language the banks find the money for most new undertakings or new development of old ones, and to a great extent settle how the national savings are invested. But this language needs explaining. "Finding the money" means that the banks collect together from many owners the legal powers of these owners over

property; and "investing the money" means that they apply these powers by causing property to be used, and work to be done in a particular manner. Real money takes but little part in the transaction, and is but little affected by the result. Material goods other than money are still less affected at first, the articles which the banks hold on pledge being by comparison trifling. What is collected is a mass of claims and rights to material goods, in a commercial country like England a gigantic mass. And according as these rights and claims are used, the production and consumption of goods, and consequently the amount of national wealth, are immensely affected; but real money, as already said, is affected very little.

§ 2. **Meaning of Investing and Saving.**—The word *invest* is sometimes used as mere equivalent of buy or exchange, as when a man is said to sell land and invest the proceeds in railway shares; or *vice versa*. Here a part share of the railway is practically exchanged for the land. But in another sense, to invest means to determine industry in a particular direction, causing certain men to work at certain goods. In this sense there could be no investments in a quite stationary state with no increase of population and no inventions. For such investments presuppose that wealth has been saved or can be appropriated, and that there are more men to work it. This new wealth is often reckoned in money, often represented by currency, sometimes even represented by real money. But the money is not the new wealth or the new men; rather it is utterly barren in itself and in this aspect a mere counter, as you would soon find if you went with your labourers and a cart full of sovereigns and nothing more to till the waste: not one square yard could be broken up, not one man get his breakfast. And you would do no better if with your cart of sovereigns you also brought all the implements of cultivation, and left behind the men: it is the sovereigns you have to leave behind.

Forgetfulness of this leads to the *compound interest fallacy*, that if a penny had been "invested" A.D. 1, and allowed to

accumulate at three or four per cent. compound interest, it would now have reached an amount equal to the whole globe in solid gold many thousand times over. In reality, as M. Gide has well argued (*Principes d'Economic Politique*, 4th Edit. p. 137), no bale of wool or ton of iron has ever produced another, and capital without labour is powerless, just as labour without capital. Compound interest, to be reasonable, implies rapidly increasing population and rapid increase of man's dominion over the earth, great quantities of new men and new wealth. Hence indefinitely continuing compound interest is barred by the limitation of the earth's resources, by the law of diminishing returns, and by the wars, plagues, famines, and other historical checks to the increase of population.

Saving is in general opposed to non-industrial expenditure; a man's "savings" are whatever part of his income is not spent in present enjoyment or given away. But this negative information does not tell the nature of the goods "saved," and what is done with them. They may be capable of industrial use, and may be so used, and thus will bring in, it is hoped, fresh income. Here, saving (*l'épargne*) is equivalent to investing (*le placement*). But it may equally mean hoarding (*la thésaurisation*, Gide, p. 388), namely, the simple accumulation of goods—naturally only of those that will keep uninjured—putting them aside and not making an immediate use of them, as jewelry in British banks, coins hoarded by the Hindu ryots, and in dry countries even grain and fruits, like those of the covetous man in the Gospel (St. Luke xii. 17—19), who had much laid up in barns for many years.

§ 3. **Benefits from Credit and Banking.**—How do the banks use the power they have? Are they beneficial? Is the vast system of giving credit to dealers a good system? Let us first give a general answer that credit is a force that can be used for good and for evil; that the history of the world shows that every civilised society has used this force, so that proposals to abolish credit are illusory; but that the history of the world also shows that credit has been invariably abused unless fenced in with many precautions. The worst abuses are those of

uncommercial credit. In the present chapter we have only to look at the abuses of commercial credit, and the injuries that are the consequence. But first let us recall and sum up the *benefits* that come from commercial credit.

(1) Immense economy in the use of the precious metals. It has been reckoned for the United Kingdom that only a small fraction of one per cent. of wholesale transactions is effected by the immediate payment of gold (Nicholson, *Political Economy*, II. 132); and hence the cost avoided is very great. How great indeed we cannot exactly reckon, because were there no credit the number of payments would be incalculably reduced. Enough that the economy is of many millions, and is well explained by the celebrated metaphor of Adam Smith, that "the judicious operations of banking by providing . . . a sort of waggon-way through the air, enable the country to convert, as it were, a great part of its highways into good pastures and corn-fields, and thereby to increase very considerably the annual produce of its lands and labour." (Bk. II. c. ii.)

An incidental advantage of this economy is its influence in keeping steady the value of money. For while on the one hand the vast growth of commerce requires a vast absolute increase in *payments*, the simultaneous growth of credit causes on the other hand a vast relative decrease in *money-payments*; such credit taking the two forms, the one of *clearing*, compensation, or setting off one payment against another; the other of the *circulation* of paper instruments instead of money. So the demand for fresh gold or silver is incomparably less than the growth of wealth and population; and this helps towards keeping prices in general, *i.e.*, the value of money, at a level.

(2) Immense saving in the time, trouble, and risk of making payments; an advantage already sufficiently explained in the two previous chapters under the third and seventh functions of banks.

(3) The possibility, by collecting a number of savings to employ these much more profitably, because on a large scale, than if each individual had himself employed his own savings, which are often so small as scarce to admit of any productive employment.

(4) By judicious lending to traders and by fostering new enterprises, banks direct men and wealth, and especially new men and new wealth, into the most advantageous employments, instead of men having nothing to do and wealth lying unused. One particular benefit is that by judicious help to traders in temporary and accidental difficulty, they may keep together a business that is really sound and useful, yet which would be broken up without their help, and a great waste of capacity, and probably of wealth also, be the result. Another benefit is that by making advances to young, eager, and capable men (as done, or done till recently, in Scotland), there is a greater utilisation of capacity than would be possible without credit.

§ 4. **Benefits from Stock Exchanges.**—The proper use and function of a stock exchange or *bourse* such as exists in every great commercial city, is to be a free and open market for the sale of *securities*, that is, of titles to property which by the law of most commercial nations and by their own nature are easily transferable. Formerly there

was little else of such titles except the stocks or bonds of public debts; but in the course of the nineteenth century not only have public debts (of both central and local Governments) increased to a fabulous sum, but also by the spread of joint stock companies, where the ownership of property is divided into a multitude of transferable shares, a *great revolution* has been made in the conditions of holding property, and few people of any wealth are not either bondholders, shareholders, or both. Indeed single ownership has in great part been succeeded by divided or even fragmentary ownership; and the revolution has been as striking as that in Western Europe during the ninth and tenth centuries when allodial tenure gave place to feudal.

Securities may be divided into three great classes: (1) public securities, or the debts of central and local Governments; (2) railway shares and debentures; (3) miscellaneous. The total value of such securities in which there are dealings on stock exchanges amounts literally to many thousands of millions of pounds. In their legal aspect they can roughly be divided into two kinds, one, the *share*, namely, a certificate of partnership entitling the holder to a share in the profits of a joint stock undertaking; the other, the *bond*, namely, an acknowledgment of loan with the promise to pay fixed interest. And of both these kinds there are many varieties; points of importance being whether the loan is permanent or terminable; and if terminable, what is the method of paying it off.

Granted the prevalence of divided ownership and transferable stocks and shares, it is an obvious and great convenience to have a market where all securities can be exchanged with the greatest speed, to the best of advantage, and at the least expense. Now a stock exchange is such a market, and thus

in itself is an excellent institution and indispensable to our times.

We have seen in the last chapter how the better-known securities which are dealt with (quoted) on the chief stock exchanges throughout the world form a convenient kind of international currency. For by selling them to foreigners, debts can be paid without a bale of goods or a single sovereign crossing the sea.

§ 5. **Drawbacks of Commercial Credit: Fostering the Worst Men.**—Unfortunately, like all human powers, the powers of credit, of banking, and of dealing on the stock exchange, have been abused, and we have to weigh drawbacks as well as advantages. Thus by the injudicious operations of banking men may be diverted from better to worse employments, misdirected production and misdirected consumption fostered, national wealth drained away, many of the most energetic and skilful men induced to waste their energies and skill on unprofitable gambling. All this requires a little more explanation.

First, the great ease of borrowing allows indigent, ignorant, incapable, or unscrupulous men to become masters in production instead of servants, and thus fosters the production of bad merchandise, and the ruin of the producers of good merchandise. For, as we saw in Book I. ch. iii., inferior merchandise will often drive out the superior, and men are liable to be enticed to depraved consumption. And these unsuitable producers are likely to be bad masters; and are liable also by becoming bankrupt to do further mischief by causing men to be for some time unemployed and property for some time unused.

For example, without credit the race of English petty speculative builders could not have arisen, who from the sanitary, the artistic, the financial, and the social points of view have been for fifty years a scourge of the country. Indeed, credit, though not the cause of the prevalence of dishonesty in trade, has been the opportunity.

§ 6. **Misdirection of Enterprise.**—Moreover, by unwise lending the bankers may direct the new capital and the new men of a country to less fruitful or entirely fruitless enterprises. This indeed, as regards commercial credit, is hardly likely in a simple state of banking, where the banker knows all the circumstances of all his customers and their neighbours, and where there is local lending for local purposes. But in much of modern banking, especially that conducted in the bank parlours and discount offices of the city of London, only a limited knowledge can be had of persons and still less of their undertakings; unsuitable bill-discounting and other forms of lending are only too likely; and fine promises are liable to gain the advantage over sound and sober trading. *See* APPENDIX N.

There is a perpetual temptation to bankers to swell their dividends by lending to inferior borrowers who offer higher interest; and the temptation is increased if the bad habit is followed of the bank paying any substantial interest on deposits. The indiscriminate lending of London bankers and bill-brokers, the confusion in the relation of these two kinds of lenders, the general ignorance about the character and aims of the real borrowers, and the want of mutual help and knowledge by bankers of each other's transactions, are evils that have been pointed out, but not remedied.

The well-known bank director, Mr. Hankey, gives four illustrations of bills of exchange which do not deserve the title because of the lack of security that when due there will be assets to meet them: (1) a bill drawn by a railway contractor and accepted by the railway company, which will have no cash in hand six months hence unless it can borrow;

(2) a bill accepted by shipowners who intend to provide means to pay it six months hence by mortgaging their ship; (3) a bill accepted by builders who intend to provide means to pay it six months hence by borrowing from some insurance company on houses now under construction; (4) a bill accepted by cotton-brokers who intend to provide means to pay it three months hence by pledging the dock-warrants of cotton that they expect will have arrived. (*Banking*, 4th Edit. pp. 26—28.) Had the Australian banks borne in mind these cautions of Mr. Hankey, they would have avoided the competitive and risky lending—in particular, lending on the security of "eligible city lots"—and would not have failed, as so many of them did, in 1893.

§ 7. **Frauds on the Stock Exchange.**—We have already explained the legitimate functions of a stock exchange. But the possibilities of credit and the facilities granted by bankers have made nearly every stock exchange the centre of two of the gravest evils of our times: fraudulent company promoting and systematic gambling.

The first evil is the introduction of worthless stocks and bubble companies, to the great profit of contractors, agents, brokers, and other intermediaries, and to the much greater loss of those whose property is swallowed up in these idle ventures. And so far from this being an exceptional evil, that the total property lost in bad undertakings has been reckoned to be nearly as much as that employed in good undertakings.

The technical details of promoting new and worthless companies would be long to explain. In general a secret association or syndicate pretends to subscribe to a new undertaking, introduces it as a security on the stock exchange, bribes the Press to speak well of it, buys and sells the stock fictitiously, induces the public whose savings are in bankers' and brokers' hands to buy it, and having made a handsome profit, withdraw and leave the undertaking to its fate. Notice that between fair and open dealing on one side, and

complete, deliberate swindling on the other, there are many degrees, many intermediate undertakings where there is rather misrepresentation and delusion than fraud and falsehood.

§ 8. **Gambling on the Stock Exchange.**—The second evil relates more or less to all securities, and must be called in plain English, gambling. Instead of all the dealings on the stock exchange being confined to *bona fide* sales and purchases, and instead of the intermediate brokers being only agents rewarded by a commission, much of the dealing is mere speculative buying to sell again at a higher price, mere waste of time and of thought, as far as national wealth is concerned. Still, if each sale was a real sale, however speculative, there would be a limit to this dubious pastime. As it is, all limits are passed by the device of *time bargains*, by which the parties dealing with one another agree the one to deliver, the other to accept, at a fixed price a certain quantity of a particular stock at a fixed date in the future. There are several varieties of these bargains, but if stripped of technicalities, many are simple betting on the price of some stock at some future date. The temptation to work on the price of that stock in the interval by conspiracies among dealers or by circulation of false news, is only too evident. Betting indeed is not wrong in itself and apart from its abuse; but to live by betting is wrong; and those brokers who tempt the public by their circulars, advertisements, and agents to "operate on the stock exchange," and who bring many a family to discord and ruin, should have the same measure dealt out to them as

is dealt out to the keepers of gambling-houses. Nor is this gambling on the stock exchange a mere incidental abuse, such as seen in all human institutions. On the contrary, a very sober witness declares as well known that "the bulk of the transactions that take place on the [London] stock exchange are of a speculative nature, the *bona fide* business having been estimated by competent judges at a bare five per cent. of the whole." (G. Clare, *Money Market Primer*, p. 147, 2nd Edit. 1896.)

§ 9. **Gambling on the Produce Exchanges.**—During the last quarter of the nineteenth century associations have been formed to apply the methods of the stock exchanges to produce, principally agricultural raw produce, such as wheat, maize, coffee, cotton, hops, lard, sugar, tobacco, and wool. Hence the places where such business is transacted are generally called *produce exchanges;* and to render time bargains easy, definite units of quantity and definite types or grades of quality are fixed, for example, at the London Produce Clearing House 100 lbs. of Northern spring wheat, Duluth certificate. Once reduced to these definite portions, measurable and homogeneous, wheat, cotton, and other produce can be dealt with as easily as shares or bonds; settlement-days being fixed at short intervals, for the liquidation of bargains and balancing of accounts according to the official price of that day.

In judging these time bargains, generally known as *dealing in futures* or as *options*, it is very necessary to distinguish carefully real, serious, or *mercantile speculation* on the one side from fictitious or *gambling speculation* on the other. Mercantile speculation in produce may take the form of dealing in "futures," the seller meaning really to deliver grain (for example) at the future specified time, and the buyer meaning to receive it. Such transactions (if not on so large a scale as to induce a monopoly) are in themselves not merely legitimate but beneficial, helping to steady prices by equalising them at different seasons and places, to the presumable advantage of both producers and consumers. But where no delivery of produce is ever meant, no real buying or selling on either side, but simply a wager on the future price, the transaction though it may be called by the same name is not of the same character.

Now on the produce exchanges it is generally reckoned that gambling speculation greatly preponderates over mercantile speculation. Thus on the Liverpool Exchange, in 1896, it was reckoned that in only 3½ per cent. of "options" in wheat was delivery demanded. In America, the quantity of wheat annually sold has been reckoned as amounting not merely to twice or thrice but to ninety times the amount annually produced. Similarly, in other countries, and for other kinds of produce; and though the particular figures may be disputed, the general fact of the preponderance of bargains with no real delivery is hardly disputed. APPENDIX O.

§ 10. **Great Controversy on "Futures."**—From what has been just said it follows regarding the great controversy on futures (especially in grain), that those who defend them all, because of the advantages of mercantile speculation, are much further from the truth than those who condemn them all, because of the evils of gambling speculation. Some of the arguments on both sides are as follows:

A. "Futures" have been factors in the ruin of agriculture by creating a vast mass of fictitious produce and thereby artificially reducing the price of agricultural produce. It is replied that fictitious buyers are created *pari passu* with fictitious sellers; to which again it is said that speculators interested in lowering prices are stronger than their opponents. This argument then can be left at present as neither proved nor disproved.

B. "Futures" exercise a moderating influence over prices, hindering fluctuations. This is true for the smaller quantity of bargains that are commercial speculations. But for the much greater quantity of bargains that are gambling speculations the argument is highly disputable if not disproved, and certainly the formation of a genuine market price, based on the real conditions of crops, and the real needs of consumers, is disturbed by fictitious dealings, as well as by the conspiracies to which these fictitious dealings give such extended opportunity, *e.g.*, pretended sales at fancy prices by confederates.

C. "Futures" are a great convenience to traders as a means of insurance; for by "hedging sales" they are able to secure themselves against loss. To which it is replied that there are other methods of insurance besides those borrowed from the swindlers of the race-course; and also that this new method of insurance results in shifting the risk from those who ought to bear it to those who ought not, and is for the benefit of great monopolists and unscrupulous speculators at the expense of small dealers and honest merchants. Indeed, one of the apologists of futures at the British Association in

1896 urged that speculative trading made large operations less risky, and was steadily concentrating the grain trade of England in fewer hands.

D. "Futures" foster the growth of parasitic middlemen between producers and consumers, who live, and can only live, by the losses of others, such as the 500 persons in Vienna wholly employed in speculating in futures. And the losses are likely to fall ultimately on the weakest parties, namely, the rural and farming classes, whose hostility to futures is therefore reasonable.

§ 11. **Reform of the Stock and Produce Exchanges.**—Three problems have to be faced: to prevent frauds connected with the stock exchanges, to check gambling on the stock exchanges, and to check gambling on the produce exchanges.

Regarding the first: (1) no joint stock company with limited liability should be allowed to commence business, or any dealings in its shares be allowed, before at least two-thirds of its nominal capital was subscribed, the shares duly allotted, and the capital in great part actually paid up; (2) all material facts should be disclosed on the prospectus of any such company, and the promoters and directors punished for the omission of any such facts; (3) the names of all the holders of shares in any company whose shares are quoted on any stock exchange should be at any time ascertainable.

To check gambling on the stock exchanges is more difficult. There is indeed a drastic law in the province of Quebec, whereby the parties or intermediaries to contracts of buying or selling securities without the intention of real acquisition or delivery, are liable to five years' imprisonment; the habitual frequenters of places where such misdemeanours are committed are liable to one year's imprisonment; and the holders of such places are to fall under the law dealing with those who keep gambling-houses. This law is better than the feeble palliative once common in Europe and known as the *exception de jeu*, by which the loser in these gambling speculations is allowed to refuse payment on the ground of his obligation being a gambling debt—a premium to dishonesty. Probably in England the most attainable remedy is twofold: first, the severe repression, already suggested, of all incitations by way of advertisement, circular, or agent to operate on the stock exchange; secondly, the gentle pressure of taxation on every stock exchange bargain.

To check gambling on the produce exchanges without hindering *bona fide* mercantile speculation is a delicate task, and the German law of June, 1896, which forbade without further ado all time bargains in grain or flour, though possibly right for the particular circumstances of Germany, seems unsuited for general application, like the anti-option laws of several American States, no sooner passed than set at defiance. Dr. Kienböck, of Vienna (*Der Terminhandel in Getreide, Wien*, 1897), proposes to render null all contracts to deliver corn or other produce at a future date unless specific details are given such as would be given in genuine buying and selling. Thus the bargains in "contract wheat" would be invalid, and the professional speculators in the grain market would find their occupation well-nigh gone. An additional or alternative measure would be a progressive tax on speculative transfers; and assuredly it is not too much for a Government really earnest in the task, with the help of legal and mercantile experts, to strew the path of the noxious gamblers with difficulties without serious obstruction to genuine trade. Unhappily Governments are sometimes anything but earnest in such a task.

§ 12. **Insolvency Laws and their Reformation.**— The abuses of credit lead to commercial failures, panics, crises, and depressions of trade. Regarding the first, we are so accustomed to them, so familiar with individual insolvency, that we are likely to have our senses blunted to the misery such failures cause in so many homes, and still more likely to forget that they are in a great measure due to preventible causes; and in particular, that the failures numbered by thousands, which are recorded every year in England and Wales, not to speak of other countries, are mostly not a necessity, but a scandal.

The laws of insolvency and debt prevailing in England and Wales from 1869 to 1883, amended but far from perfected since, had the character of combining with perverse ingenuity the utmost facility for fraudulent and careless debtors to escape their obligations and begin afresh their fraud or their

folly, the utmost loss to honest creditors, and waste of insolvents' estates; the utmost facility of the creditors of the poor to oppress them *ad libitum;* and the utmost hardship to the poor, unable to be cleared of their debts or escape repeated imprisonment, and the total destruction of their homes. How little has been done to remedy this grave scandal can be seen from Judge Parry's article in the *Fortnightly Review*, May, 1898, where the cases are given in detail of three rich men who by riotous living had incurred liabilities of some £350,000 with only some £2,400 wherewith to pay. They were allowed to go scot free, while according to the returns of the year preceding, more than eight thousand poor men for paltry debts had been cast into prison. And Judge Emden could speak in court (September 28, 1898) of bankruptcy as a luxury; namely, that the process of going through the Bankruptcy Court and being thereby cleared of all debts, was possible for the richer classes only and not the poorer. *See* APPENDIX P.

To make failures in a country as few as possible, a humane and rational Government will make the laws of insolvency reasonable; punishing all fraud, and among traders all culpable negligence; and compelling such bankrupts to be henceforth rather servants and agents than masters and principals; requiring also a certificate of good conduct before being licensed to trade, and a deposit of security before being allowed to engage men and property in a speculative undertaking. We should not then read in the newspapers that a certain financial agent, having failed in 1874 with liabilities of over £80,000, and assets under £6,000, was again adjudged bankrupt in 1880; and starting again, took part in a company which failed in 1890, and himself for at least the third time failed in 1891 with liabilities of £344,989, and assets of less than one fourth of the liabilities.

§ 13. **Causes of a Commercial Crisis.**—A panic or commercial crisis is the failure in any commercial centre of many traders and bankers, and the accompanying sudden and great restriction of credit. Such crises vary much in extent, intensity, and other circumstances, but in general *three disorders* may be distinguished in connection with them.

First, previous *misdirected production:* articles

produced or merchandise imported beyond the real requirements of purchasers, immense outlay on buildings, machinery, factories, mines, railways, that will bring no profitable return. A crisis settles who is to suffer for this previous waste of productive energy.

Secondly, previous *excess of consumption*, expenditure on fine houses, on costly food and dress, on intoxicating drinks, on horses and carriages; and capital in consequence is eaten into, for example, worn-out machines not replaced, buildings not repaired, stocks of raw material not renewed, the number of live stock not kept up, woods felled and not replanted; and all the while the fine living going on as though the means of fine living were not shrinking up. A crisis settles who is to suffer by this previous excess.

A common result of these two disorders is a delusive appearance of prosperity and a rise, not of prices in general (*i.e.*, a fall in the value of money), but a rise in the prices of a considerable number of articles which are bought by merchants and manufacturers on speculation, and of the price of certain articles of luxuries for which the demand had been factitiously increased.

Thirdly, subsequent *dislocation of industry*, perhaps the most disastrous of all the three disorders. For the previous division or concert of labour having presupposed credit, when every one in the commercial world now begins to refuse credit and to demand cash payment, there results a confusion like that at the Tower of Babel. Workmen can no

longer find the proper person to employ them, or the employer the proper workmen; and the holders of property cannot get it turned to proper account. So property lies idle, dead stock accumulates which is spoilt before it can be used, many workmen have no work, and many particular capacities can no longer be utilised.

Moreover, just as the prevalence of the two first disorders is accompanied by an artificial rise in the price of many goods, so now this third disorder is accompanied by a corresponding fall.

Observe that the third disorder may arise without being preceded by the two first, when their place has been taken by some external calamity such as war or the failure of crops either in the home country or in some other country having a large trade with it.

§ 14. **Prevention or Alleviation of a Commercial Crisis.**—Now it is plain that as prevention is better than cure, the aim of a statesman should be to prevent the disorders which lead to a crisis, and which are fostered by lax laws on the responsibility of owners, employers, and lenders, notably in England by the laws on limited liability and insolvency, and by the eager passion for wealth aroused more than ever by the great political and social prizes held out to the rich. But it is also plain that when a crisis has come and when its antecedents can no longer be dealt with, we can still do much to mitigate its ill-effects, if only we can mitigate the consequent third disorder, which is the dislocation of industry. Now banks that

receive deposits on call, or that issue bank-notes, are in a position of peculiar danger, because the depositors or note-holders may rush all together to demand payment in coin (a "run on the bank"), and the ordinary reserve may be inadequate to pay even one half of them; and yet the bank may all the while be really *sound*, that is, able to pay every note and every deposit in bright new sovereigns, if only a few months, or a few weeks' delay were granted it. Unsound banks, indeed, which have taken part in rash undertakings can be cured by no treatment; but sound banks will respond to treatment; and it is especially desirable to support them, because they in their turn will support many sound traders who only want a little time to enable them to remain solvent. How to gain time for the sound banks and traders is a question for local laws and circumstances; much can be done by a great national institution which all trust, like the Bank of England, which in fact by freely lending in each crisis has done much to mitigate them, and would have done more (as explained in ch. ix. § 8) but for the restrictions of the Bank Act.

The concerted action of sound banks may sometimes allay panics and prevent many unnecessary failures. Thus the Association of the New York Banks, in the great American commercial crisis of 1873, agreed to pay each other not in cash, but in certificates; and not to pay large cheques over the counter in currency, but to *certify* them, that is, to give a collective guarantee that they would ultimately be paid. This contrivance met with great success. In Scotland, where bank-notes are a much more important part of the circulation than in England, the issuing banks for about a century and a half have undertaken mutual responsibility for their bank-notes (as noticed in ch. viii. § 13).

Depression of trade is that condition of comparative poverty and distrust which follows a crisis; and also the state of poverty which may come where those two antecedent disorders, or some external calamity have occurred without producing actually a crisis. So for some years in England previous to 1887.

§ 15. **Mistakes on Commercial Crises and Trade Depressions.**—(1) To think that speculation causes a commercial crisis by increasing the currency: hence a general rise of prices; hence increase of imports, and so on from bad to worse, till the currency is reduced by the break-down of credit; hence a general fall of prices; hence increase of imports, and at last equilibrium. But though there is a rise of prices, it is not a general rise, being only in those goods in which there is great speculation. And the rise has nothing to do with money or currency, but is due to a factitious demand supported by credit; for the sales are on credit, not for cash. Very likely also there is a great excess of imports before the crash; but this is not because general prices are higher, but because speculators, projectors, and prodigals are recklessly buying. And the low prices after the crash are not due to the standard of value having altered, but to traders having accumulated supplies that are not wanted, and if sold at all can only be sold, as they say, dirt cheap.

(2) To think a crisis implies a drain or deficiency of gold or silver. The fact that all debtors, and notably banks, may be nominally bound to pay in gold or silver has deceived people into thinking these are scarce in a crisis; whereas, in fact, there is plenty of gold and silver to be had, for example, during the panic of 1866 in England the imports of gold were really every week in great excess over the exports: what is scarce is wealth to exchange for the gold or confidence to lend it.

(3) To think depression of trade or a crisis may be due to a general over-production or a *general glut* of commodities. This is to think selling is like giving, a one-sided business, and is to forget that though currency may be used as a medium of exchange, what is ultimately wanted by sellers no less than buyers is not money, but other goods, and that precisely it is other goods that are wanting. For a crisis implies not over-production but under-production or misdirected production. There has been some calamity like war

or failure of crops, and hence under-production; or there has been an eating into capital through over-consumption, and hence again under-production; or else through reckless speculation or some sudden change of fashion or demand (change from war to peace, or from silver to gold as the material of money), production has been misdirected, and a stock of goods accumulated, whether these goods be means of production or objects of enjoyment, machinery or bon-bons, which the former buyers have no longer the wealth or no longer the inclination to buy. To think, therefore, that more consumption or less production is wanted to mend a depression of trade, is a mistake, though a natural one: for many merchants and manufacturers have on their hands large stocks of unsaleable goods, and cry out that too much has been produced. And too much, true enough, has been produced of some things, but then also too little of other things.

Further grounds for this oft recurring mistake have already been given at the end of Bk. I. ch. vi., in the criticisms on Mr. Hobson.

CHAPTER XI.

UNCOMMERCIAL CREDIT.

§ 1. **Meaning of Uncommercial Credit.**—Credit that is not among traders for the sake of trade is to be called *uncommercial credit*, and is so different from the other in its character that it requires separate treatment. True, that for much of uncommercial credit the agencies for lending are the same as for commercial credit, namely, banks in the wide sense of the term ; but the character and consequences of their lending are very different in the one case from what they are in the other.

Uncommercial credit can be divided into three main divisions, lending to public authorities, lending to cultivators or owners of land, and thirdly, miscellaneous credit. Let each be taken in order.

§ 2. **Public Lending.**—The national debts of the world, that is, the debts guaranteed by the State, amounted in 1897 to over six thousand million pounds, yielding annually over 250 million pounds interest ; and since 1897 have rapidly increased. Besides this the debts of various local authorities, urban and rural, amount throughout the world to many hundreds of millions. The common feature of such debts is that their interest is procured by a com-

pulsory tax or rate levied on the subjects of the particular authority; and their security rests on the willingness and capacity of the authority to levy such taxes and rates. Whether it is good or bad for such vast sums to be owing is not our present business, but only to look at the nature of such credit. The lenders in such cases have nominally lent the local or central Government so much money; in reality little if any money, and not much currency has been transferred; what has been transferred is a mass of rights to property and consequent power over persons; and new wealth and population has been directed, or old wealth and population diverted, to the particular channels the authorities have determined, for example to make ships and fortresses, to march and fight, to construct roads, harbours, streets, sewers, or water-works. How the wealth and population is in this manner directed is a matter of great importance to the nation, but of no immediate importance to the creditors, who can neither control the method of expenditure nor demand back what they have lent, but have only the passive function of receiving the interest. So, in fact, they have not so much advanced a loan as purchased a perpetual annuity.

Without a widely extended system of banking such as described in the ninth chapter, the widely extended system of Government borrowing could never have arisen and could never be carried on. The savings of a multitude of private persons must be collected as banks alone know how to collect them, if they are to pass into the hands of the authorities; and it would scarce be possible for these authorities in their turn to pay hundreds of thousands of annuities without the intervention of banks.

But the very facilities which the banks provide and the power which they consequently attain, are liable to the gravest misuse, as we shall see in the chapter on public debts in Book IV.

§ 3. **Agrarian Credit and its Four Different Purposes.**—The second main head of uncommercial lending is agrarian credit, lending, that is, to landowners and farmers as such. For this sort of lending the intervention of banks is not indeed absolutely necessary, but has greatly encouraged it, notably lending in the legal form of mortgages. Indeed the growth of mortgages in Europe and America during the course of the nineteenth century has been almost as striking as the growth of public debts; and in several countries it is probable that the larger half of the net income from land does not remain in the hands of the owners, but has to be transferred year after year to mortgagees and similar creditors.

Now in agrarian credit it makes a great difference for what purpose the loan is made. Let us distinguish four different cases.

I. For development of the land.—Of this a conspicuous instance are the loans on mortgage at six to eight per cent., that have been made by the investing classes in the East of the United States to settlers in the West. Although all was reckoned in money, the real loan was the transfer of farming implements and live stock from the East to the West. The growth of a vigorous rural population has been fostered by these advances.

The same results have appeared in the Argentine Republic, where the interest indeed has been very heavy, some twelve per cent., but then the soil and climate admirable and the

taxes light; while now, if the taxes have risen, the interest on the previous loans has been reduced to less than half by the lowering of the standard of value consequent on the over-issue of inconvertible paper currency.

Another example, quite a different one, of loans for the development of land are those granted at low interest by the English Government to drain the heavy clay lands of England, loans which gave, for a time at least, great impetus to English agriculture.

II. For reparation.—To make good, for example, the damage by fire, flood, hail, murrain, that requires fresh buildings, earthworks, plants, seeds, live stock. By credit of this kind persons and things as in the previous case are directed to the land; and this is a good thing, nay, in this case almost a necessity.

Unhappily, where the credit after such calamities is in the shape of a loan from bankers, the distress of the sufferers is only too likely to result in their having to pay an exorbitant interest. Hence in a country with a good rural constitution, such calamities, when confined to a few persons, are to be met by the mutual insurance of rural guilds; and when widely spread, by grants and loans from the Government.

III. For paying taxes.—Where Government requires taxes to be paid punctually in currency, while the agriculturist receives his revenue in kind, and can only sell his produce conveniently at uncertain intervals, the intervention of a banker to pay the taxes for him at the right time, and to be repaid at the agriculturist's convenience, is in itself a benefit to banker, agriculturist, and Government.

Unhappily this intervention is liable to gross abuses, exorbitant interest may be charged, and the poor rustic debtor may be driven from his farm, or made in fact, if not at law, the debtor-slave of his creditor. Two examples on a wide scale of this terrible evil have been seen during the

second half of the nineteenth century in British India and in the Italian Kingdom.

Observe that in this case of agrarian credit, unlike the first or second cases, there is no bringing fresh moveable wealth, or to use the common phrase, no application of capital, to the land; all that this kind of lending does, when there is no abuse of it, is to enable a withdrawal of wealth from the land to be effected with the least inconvenience.

IV. For paying off claimants.—This is borrowing to pay off coheirs or others who have claims on the property, or simply borrowing to be able to buy the land. The amount of such borrowing varies immensely according to the laws of inheritance and the powers of alienation. The nineteenth century having been conspicuous in Europe for the break up of joint families, the compulsory division of lands among children male and female, and the increased power of selling or charging lands, has naturally been conspicuous for the increase of debts under this head. And in this fourth case, as in the third, nothing fresh is brought to the land. On the contrary, this form of credit is the great channel which the banks have opened for draining away the produce of land. For the result is not merely that one owner is in the place of another or of several others, but that this one owner has less of the produce to apply to the land, having to send away so much to pay interest or rent-charges. Hence the too familiar spectacle of "encumbered" landowners in the United Kingdom, of penurious peasant owners in France, of a wretched throng of rural debtors in the Austrian dominions.

Of the four cases of agrarian lending, the three last are plainly more or less calamitous, and as far

as possible are to be avoided. How to be avoided we will soon consider; but here observe that even in the first case it may happen, if the interest charged is high, that the advantage of quicker settlement and development may be more than outweighed by the subsequent drain from the land to pay the interest. So in general, and apart from charitable or co-operative lending, we must hold fast to the maxim of Shakespeare, that borrowing dulls the edge of husbandry.

§ 4. **Miscellaneous Credit. Nature of Usury.**—All lending which is neither commercial, nor agrarian, nor public—neither traders', farmers', nor Government credit—can be put under one head as *miscellaneous*. The principal ends of such borrowing are to provide for the expenses of sickness, to stave off hunger, to indulge in dissipation, or to fulfil some expensive duty which custom prescribes, for example the celebration of marriage festivities in Hindustan, of funeral rites in England, of the village festival in Italy. In all such cases, good and bad alike, whether a workman gets into debt to provide medical aid for his sick mother, or a young rake to provide means for his debaucheries, the direction of wealth induced by the lender is not towards production, but towards consumption; if there is any profit out of which any interest is paid, it must come from other sources; the loan itself, often actually in these cases made in money or at least in currency, is essentially barren; all gain from such loan is presumably to make profit without labour from the property of another, is to turn the misery or folly or

ignorance of the borrower to the enrichment of the lender, and is thus the offence held in all ages in utmost detestation, and known as *usury*.

Usury may be defined as all unrighteous gain from the loan of generic (fungible) property, whether by taking interest where none ought to be taken, or by taking exorbitant interest. In this sense it is found in frightful proportions in rural as well as miscellaneous credit; also in commercial credit to some extent and even in public credit, particularly in the case of dependent States and public bodies. Three classical instances are the lending by Cato, Brutus, and other Roman magnates to the provincial municipalities; the lending by the servants of the East India Company in the eighteenth century to the Nabob of Arcot; and the lending by European financiers in the nineteenth century to the Khedive of Egypt.

§ 5 **Mistakes on the Doctrine of Usury.**—The main mistake is to confuse or identify money with means of production, and hence to maintain that the lender of money, on the ground of money being a productive instrument, is as much entitled to a remuneration as if he lent oxen or sewing-machines. In reality money in itself, as we saw at the beginning of the last chapter, is "dead stock . . . which produces nothing to the country," to speak with Adam Smith (Bk. II. c. ii.), or, to speak with a great banker of our own day, "in the shape of coin . . . perfectly unproductive." (Hankey, *Banking*, 4th Edit. p. 63.) And in many circumstances it is not so easy to get it out of that shape, very difficult to *invest* savings. So the father of Pope, the poet, on retiring from business, took into the country with him a strong box with nearly £20,000 in it, taking out what he wanted from time to time. A similar difficulty of investment caused, as Cliffe Leslie points out, the accumulation of the vast stocks of plate in private houses in the sixteenth century; and if we wish to learn the unproductiveness of loans in the fourteenth century in England, we can turn to the clear explanations of Professor Cunningham. (*English Industry and Commerce*, Vol. I. pp. 325—333.)

Another mistake (and in part a consequence of the mistake just explained) is to speak of "mediæval confusion of thought" on usury, and to say, as Professor Marshall says of the doctrine of the Scholastic writers or Canonists, that it implied "the mischievous fallacy that—independently of the special circumstances of the borrower and the lender—the loan of money, *i.e.*, of command over things in general, is not a sacrifice on the part of the lender and a benefit to the borrower, of the same kind as a loan of a particular com-

modity; they obscured the fact that he who borrows money can buy, for instance, a young horse, whose services he can use, and which he can sell, when the loan has to be returned, at as good a price as he paid for him. The lender gives up the power of doing this, the borrower acquires it: there is no substantial difference between the loan of the purchase-price of a horse and the loan of a horse." (*Principles*, pp. 669, 670.)

But, to take the last point first, far from the loan of a horse and of the purchase-price of a horse being substantially the same, there is the profound difference that in the one case the risk and responsibility of ownership are with the lender, in the other case with the borrower. And precisely to shift to another the burdens of ownership and to secure for oneself the income, was held contrary to Christian morality. And then, far from our being able to assume, as Professor Marshall does (and thereby begs the whole question), that the loan of money of necessity gives command over things in general, it failed to give such a command in mediæval Europe, and fails even now in some places, and for small loans. True, indeed, we can now generally make this assumption; and hence as the lender could presumably have "invested" the sum lent, he is justified (if the loan is for no evil purpose) in demanding interest, as having really made a "sacrifice" in lending. But at the time of the Scholastic writers there was no such presumption, no such ease of investment. "The money that was lent was money for which it would otherwise have been exceedingly difficult to secure an investment. The alternative to lending was allowing it to remain idle." (Ashley, *Economic History and Theory*, Part II. p. 435.) Indeed, long after the Scholastics there was no such general presumption—the illustrations from the sixteenth and seventeenth centuries given above are a witness—and it is only the great revolution in holding property, described at the beginning of the previous chapter, and principally the work of the nineteenth century, that has rendered the presumption of the ease of investment universal.

§ 6. **Charges against Catholic Teaching on Usury.**—A more careful study of history has dissipated the charges often brought against the Church for her teaching on usury, for example, by Mr. Lecky, and even to be found in a work generally so accurate as Palgrave's *Dictionary of Political Economy*. The Church neither taught that capital was unproductive, nor were the canons against usury a check to honest industry, but a protection against dishonest parasites. Professor Ashley, after describing the various ways of employing capital in the middle ages, concludes: "It is altogether misleading and unfair, then, to speak of

the prohibition [of usury] as putting obstacles in the way of the employment of capital. So far as wealth was intended to serve as capital, it found ways open for its employment—ways which were adequate for the time, and against which the Canonists had not a word to say." (*Ibid.* p. 438.) And in justification of the long continuance of the prohibition, Professor Ashley continues: "By far the greater part of the population of Western Europe continued to be engaged in the old unchanging pursuit of agriculture: a declaration that payment could be taken for the loan of money would have meant the delivering them into the hands of the spoiler. The Church, caring for the masses of the people, for the weak and the stupid, might think it well to maintain a prohibition which imposed no restriction on the activity of the traders in the towns, who were well enough able to take care of themselves. The original prohibition had really aimed at preventing the oppression of the weak by the economically strong. The gradual exemption from the prohibition of methods of employing money which did not involve oppression, instead of obscuring the original principle, may be said to have brought it out more clearly. As the great jurist, Ihering, has said, the exception is frequently only the way in which a principle renews its youth." (*Ibid.* pp. 438, 439.)

In truth, evolution of doctrine is no contradiction; no "subtleties" are wanted by the Church to "explain away" her prohibitions of usury; nor has she been compelled by the progress of science and civilisation to alter her teaching and permit what she forbade. The essential wrongfulness of making profit without labour, risk, or responsibility from the property of others, of claiming an increase from what is essentially barren, of turning the simplicity or distress of others to one's own gain, has been maintained by the Church from her foundation to this day; and the resort of usurers, whether in the Temple of Jerusalem, the drinking-shops of Poland, or the loan offices of England, she has ever looked on as a den of thieves. Usury is just as unlawful now as in the middle ages; but many transactions bearing the same name or appearance, which were usurious then are now innocent; the Church rightly forbade them then, and as rightly permits them now.

What science and civilisation have done is not to put a stop to usury, any more than to warfare or to fraud, but to make investment easy. Hence

they have made it possible to use as a rough and ready test of usury whether the interest on a loan is moderate or excessive. This does not mean the absurdity that wrong-doing does not matter if not excessive wrong-doing. But it means the good sense that a loan now-a-days implies the sacrifice of a profit which the lender could have made had he not lent; and to receive a fair indemnity for this sacrifice is neither moderate wrong-doing nor excessive, but simple justice.

On the foregoing discussion the reader may consult Rev. Joseph Rickaby, *Moral Philosophy*, Part II. ch. x. § 5 (on usury); Dr. W. Cunningham, *English Industry and Commerce*, Vol. II. pp. 74—87; and above all the admirable account of mediæval theory and practice, lay and ecclesiastical, on usury in the chapter on the Canonist Doctrine by Professor Ashley, being ch. vi. of Part II. of his *Economic History and Theory*. He gives a summary of the chapter on pp. 434—439 (§ 71); and it would be well that at least these five pages should be read by every student of economics.

§ 7. **Prevalence of Usury.** — The prevalence of usury and the incalculable misery it has caused from remote ages to this day are among the saddest features of history, and the prevention and punishment of this crime one of the first duties of Government, but difficult, because of the wiles of usurers, the just requirements of commercial credit, and the influence of lenders on legislation: but because difficult, none the less needful.

The ravages of usury in England, long ignored or denied as contrary to political economy, was fully revealed by the Parliamentary inquiry, and by the consequent *Report on Money Lending*, published in June, 1898. Professional money-lenders, who differ from honest bankers as much as a pirate differs from a merchantman, lent at rates from a minimum of 60 per cent. to a maximum of 3,000 per cent. A case is given (*Report*, p. iv.), not as exceptional, but as typical, where a man during

a single year borrowed £5,178, repaid £10,274, and yet, when the case came subsequently into the Bankruptcy Court, still owed £3,809. Indeed, once a borrower from these harpies, a man had little chance of escaping ruin, so artful were the legal documents drawn up by the usurers, so easy the means provided by our law for giving an artful creditor power over an artless debtor. The result, as the Report tells us, was a crop of "serious injuries to the community:" extortion from the borrower's family and friends, unfair advantage of the money-lender over other creditors, total ruin of many families, involving their bankruptcy or imprisonment, encouragement especially to young men, and to wives without their husband's knowledge, to bet and to pursue all manner of evil courses by the ease of raising the funds from money-lenders, and thus the promotion of fraud, theft, forgery, perjury, suicide.

One particular evil was that the law became a party to outrageous injustice; for except in the rare cases where illegal fraud could be proved, it inflicted no punishment on these usurers, beyond causing them now and then to lose a victim, and to be held up to ineffectual opprobrium. And in many other countries besides our own, the slackness or absence of usury laws gave such an impetus to similar misdeeds, and ruined so many peasants in Europe and India, that the nineteenth century has been called "the century of usury."

§ 8. **Usury Laws and their Necessity.**—Usury laws in some form or other are therefore necessary if the Government of any country is to be humane and reasonable. The particular form must vary with circumstances. In a commercial country a serious problem is how to repress and punish the mischievous usurer without hampering the useful banker. But the problem though serious is soluble, always supposing that those in authority are eager to solve it.

The Committee on Money Lending recommended two principal reforms: the first, that all money-lenders be registered, and compelled to trade in their own name only, and to fulfil sundry other conditions; the second, that any judge of the High Court or of a County Court in all cases of lending by such money-lenders, under whatever form, shall have absolute and unfettered discretion in dealing with the case, and thus have powers to inquire into all circumstances and antecedents, and to direct whatever payment he deem equitable, even the repayment to the borrower of sums extorted from him; nor any appeal to be allowed except with leave of the court; and the case, if the court judge fit, to be heard in private; and the borrower to be able at any time (all agreements notwithstanding) to apply to the court for relief.

Under the present circumstances of England these proposals seem wise and adequate, and have been embodied in the new usury law known as the Money Lending Act, 1900. Our judges can be trusted with the great powers proposed to be given them; nor is there any serious difficulty in recognising the kind of lender on whom registration would be imposed. "Everybody knows a money-lender," said one witness before the Committee; a definition is not needed in a matter so concrete; and as in practice we distinguish commercial causes from others, and have a commercial court to deal with them; and as in practice we distinguish a pawnbroker from a respectable solicitor who is lending money on a mortgage of household property; we can no less easily distinguish the money-lender from the banker. (*Report*, Questions 1517, 1518.)

§ 9. **Abolition and Renewal of Usury Laws.**—Usury laws, more or less effectual, appear in most civilised legislation. The XII. Tables of early Rome fixed a maximum of about 10 per cent. as a relief to the plebeians; and after many vicissitudes of legislation and practice, the Roman Law as codified by Justinian and bearing an impress of Christianity, fixed a maximum of 6 per cent. for ordinary loans, forbade compound interest, limited total interest payable to the amount of the principal, and gave particular protection to rural debtors. The Teutonic codes of the west of Europe present a contrast to the humane Byzantine law in the scanty protection against usury, till the Roman Empire of the West was restored by Charlemagne, and his legislation forbade all interest on loans, such interest being in such times almost identical with usury. The next great change, and one required by the change of circumstances, was the legal permission of interest within certain limits, such as was

granted in England under Henry VIII. (in 1545), repealed under Edward VI., and renewed under Elizabeth (1571). All charge above the legal amount (fixed first at 10 per cent., then at 8, then at 6, finally from Anne to Victoria at 5 per cent.) was usury, and such in general was the law of Europe and her colonies till the nineteenth century.

Then came the time for a great change. We have already described in the First Book the Industrial Revolution, and in the previous chapter the revolution in holding property, and the growth of credit and of the ease of investment. Hence the general prohibition of interest above a certain rate—5 per cent. was the limit in England for a century and a half—became, or was becoming, a real mercantile inconvenience, a cause of falsehood and scandalous evasions (as described in Walker's *Political Economy*, § 422, Evasion of Usury Laws), and only a feeble protection to the weak and ignorant. Obviously the usury laws required adaptation to the change of circumstances; but this was hindered by the teaching of the political economists, notably Bentham and Say, Ricardo and Mill, who asserted or assumed that all men were alike, and all sharp men of business; that extortion was impossible, and none needed protection; that the State's business was only to keep order and enforce contracts. As a consequence they were opposed to all usury laws, and counselled abolition instead of renovation. And as in great part they but echoed the errors of their age, their disastrous counsels were followed, first in England in 1854, and then by most of the European States between 1855 and 1868. But the sight of the evil caused by this abolition of the usury laws, and simultaneously the growth in the German countries of a truer notion of economics, combined to produce from 1877 onwards a salutary change; and many usury laws have been restored in forms suited to the new conditions of business and property, the most conspicuous being that of May, 1880, for the German Empire.

The British Isles indeed have sadly lagged behind in this salutary reform, the only restriction on usury between 1854 and 1900 being the law on pawnbrokers, and since 1892 some penalties for enticing "infants" to bet or borrow.

But now the evil influence of orthodox political economy is waning, and the single year 1900 witnessed in different parts of the British Empire the passing of three new usury laws: (1) the Money Lending Act already mentioned; (2) the Soudan Code, forbidding loans at usurious rates, and restricting mortgages; (3) the Punjab Land Alienation Act, which is both a usury law and a homestead law.

§ 10. Objections alleged against Usury Laws.—(1) That

they are at best unnecessary, as the competition among lenders prevents extortion. In reality there is no competition among usurers, whether English, Jewish, or Indian, but combination; no market, where the borrowing has shame, or secrecy, or blind ignorance, or cruel necessity as its companions.

(2) That usury laws injure the debtors by hindering useful loans, or by causing a higher rate to be charged to insure the lender against penalties, or a higher rate by driving good people out of the lending business and lessening the supply of loans. True, a clumsy usury law will produce some of these effects, though even then the law gives more gain to debtors by its protection than loss by its clumsiness. And a good law will only hinder loans that will be ruinous to the borrowers. "Only in rare cases," says the Report on Money Lending, "is a person benefited by a loan obtained from a professional money-lender." In general, the possibility of such a loan is not a benefit, but an injury. Nor will the rate of interest in necessitous and secret loans be raised by a usury law, or the character of the lenders made worse, the rate being in any case, witness England in 1899, the utmost that can be extorted, and the lenders in any case as merciless as man can be.

(3) That as we cannot stop usury, 'tis idle work trying, and only brings law into contempt. But exactly the same might be said of stealing, to justify a legal permission to steal; only the case is stronger against usury, because the law is not merely a passive spectator of iniquity, but actively intervenes to enforce immoral contracts, the judges in India, for example, being described as "helpless agents in the hands of grasping usurers;" and the law of England described (before the Incorporated Law Society) as being "made an accomplice in the perpetration of the most iniquitous gambling and robbery."

(4) A milder form of objection to usury laws is that of Walker (*Political Economy*, Part VI., chapter on usury laws) and Professor Marshall (*Political Economy*, pp. 668—670), recognising their usefulness in "communities mainly non-commercial," or in "early stages of civilisation," but not in the modern world. Such a standpoint is an approximation to the truth, but still implies a misapprehension of the facts. It is quite true, and we have urged the fact, that circumstances have changed, and a whole world of lending business has arisen quite unsuitable for usury laws. But this does not alter the other fact that there is still a world of lending, as great or greater than ever, in extreme need of usury laws to prevent horrible mischief. Hence to say that "as civilisation has

progressed the loans of wealth to needy people have become steadily more rare" (Marshall), is either to ignore the results of modern research and the proved prevalence of usury; or else to imply the paradox that England is less civilised under Victoria than under George II. or even Edward III.; and that Austria and Prussia in mid-nineteenth century were less civilised than in mid-eighteenth.

§ 11. **Need of Humane Laws of Debt.**—Prevention is better than cure; and laws against usury should be supported by other laws and institutions, notably by humane laws of debt, by co-operative associations, and by public or charitable lending. A few words must be said on each.

We have seen in the preceding chapter how perverse and unfair are the present insolvency laws of England. The following regulations might be effective for the protection of the poorer and weaker classes. Let no one other than a trader be punished under any pretext for debt, unless he be convicted of fraud: and with the same exceptions, let not his future earnings be capable of being seized by any creditor or assigned by any judge, if he once declare himself insolvent and surrender his property. And let every individual, and on a larger scale, every head of a household and his dependents, be fenced round with a reserve of inviolable property, which no one can seize, property such as clothes, bedding, implements of his mental or manual work, and if the head of a house, then also his *homestead*, that is, house and land up to a certain value or certain area, and the live stock, materials, and implements necessary for its cultivation; and let no farming-land be mortgaged for more than a modest proportion

of its value, and no mortgage valid or homestead alienable without the joint consent of husband and wife.

Very little of the above humane law of debt is in force in the British Isles, in Western Europe, or British India (the Punjab excepted); while a great deal of it is in force in various States of America.

For example, in the State of Illinois every householder who has a family is entitled to a homestead to the value of a thousand dollars, consisting of farm and buildings thereon, where he lives either as owner or tenant. This homestead cannot be seized or sold for any debt except for rates and taxes and for money due for the purchase or improvement of the homestead. It cannot be alienated or mortgaged without the wife (or if she be the owner, without the husband) giving a written consent. When the householder dies the widow (or widower) enjoys the rights of the deceased as long as she (or he) resides in the homestead; and their children enjoy these rights, till the youngest of them is twenty-one years of age. If a man (with the due approbation of his wife) sells his homestead, the proceeds up to the value of a thousand dollars are exempt from execution for one year, to enable him to have time to invest them in another homestead. And there are provisions for courts of law and sworn commissaries valuing and separating the exempted thousand dollars' worth of real property from the rest. Then, besides this exemption of the homestead, all debtors are secure of an inviolable minimum; inasmuch as personal property consisting of wearing apparel, books, and pictures of the family are exempt from execution, and also one hundred dollars' worth besides of other articles at the option of the debtor, and three hundred dollars' worth if he is the head of a family.

This is the law of Illinois; and though there is great variety in the details and extent of the exemption laws of other States, the general principle on which they rest is the same. And the objections to these Homestead Exemption Laws that they foster dishonest borrowing, injure cultivators by lessening their credit or making them pay higher interest or higher rent, are objections that by anticipation have already been answered in this chapter. It is enough to add that for every one case of dishonesty they foster there are fifty they check, notably the artifices of unscrupulous money-lenders; and that if they were such an injury to rural credit,

the farmers would never have been so eager for their introduction, so zealous for their maintenance, nor would capital to the value of many hundreds of millions of dollars have passed on loan from the Eastern States to the Western, and helped the formation of many thousands precisely of these exempted homesteads.

§ 13. **Co-operative Associations Averters of Usury.**—Associations for mutual lending, especially among small farmers, have proved of the greatest help against usury, and have been a means of providing the credit needed by agriculture without the injury that so often accompanies it. For example, the Raiffeisen loan banks during the last fifty years have been of the utmost benefit to the peasantry in Germany, enabling them to borrow on easy terms and on fitting occasions, because the unlimited liability of the members has allowed each association itself to get credit easily, while the mutual control of the members has prevented foolish borrowing.

Similarly in Italy co-operative banks of the Raiffeisen type, though with limited liability, are of the greatest help to small landowners, small traders and artisans, discounting bills at low rates, lending on security and often only on honour. The higher classes join in them, liability being limited, and these banks encourage savings by giving large interest on small deposits.

The general significance of the co-operative movement of modern Europe has been explained already in Book I. ch. v. § 19. It is sufficient to add here that not merely co-operative banking, but other forms of co-operation, are a preventive of usury; the necessity, for example, of cash payments at retail stores cutting off the occasion of extravagant or useless purchases and of getting into debt.

A good suggestion has been made in the *Economic Journal*, Dec. 1899, pp. 582, 583, that the "Trustee Savings Banks," which enjoy privileges and subsidies from Government, but are locally managed institutions, and which, although over-

shadowed by the centralised Post Office Savings Bank, still have some fifty million pounds of deposits, should be empowered to make small loans at six or seven per cent. to the benefit both of depositors and borrowers.

§ 13. **Charitable or Public Lending.**—Charitable lending can assume many forms, work untold good, avert countless deeds of usury. The most conspicuous form of it since the end of the fifteenth century have been the lending-houses known as *montes pietatis* or *monti di pietà*, namely, institutions for lending on pledge and not making a profit out of the transaction. The larger the endowment of the *mons*, and the less the costs of administration, the lower the interest that need be charged. Several of them have survived to this day and fulfil the office of pawnbrokers, but without the heavy charges of 25 per cent. permitted in England on small loans, and still more in Ireland.

Well-endowed, charitable lending-houses in each of our great towns, with branches in small places, and the elimination of pawnbrokers, would be a great alleviation to our poorer classes, and would also lessen the facility for disposing of stolen property. This would be better than the Government monopoly of pawnbroking suggested by Professor Sidgwick, though even that plan would be a great improvement on the present system.

Sometimes a direct loan by Government of small sums to poor cultivators may be a useful measure. Thus since 1896 the Anglo-Egyptian Government has lent the fellaheen small sums not exceeding £2 per acre and not exceeding a total loan of £10, repayable after the gathering of the cotton crop, at the rate of ½ per cent. per month instead of the 3 to 6 per cent. per month charged by the village usurers. Similarly, by the "Advance Acts" of Australia and New Zealand, the Colonial Governments have granted loans on cheap terms to settlers. See the article on Colonial Governments as moneylenders, by W. P. Reeves, *National Review*, Dec., 1900.

POLITICAL ECONOMY.

Book III.

Distribution.

CHAPTER I.

DISTRIBUTION IN GENERAL.

§ 1. **The Problems of Distribution.**—In this Book we have to inquire into the nature of ownership and earnings; how each family or person gets a living; what is the nature of their income; why it is that some work so much and receive so little, while others work so little and receive so much; what are the various relations between masters and servants, rich and poor; and how far what is evil in these relations can be avoided or amended.

The word distribution, though the usual and perhaps the best word to indicate these problems, is not faultless, for it suggests the notion that "the whole annual produce of the land and labour of every country" (to use Adam Smith's phrase) is first collected in a heap, and then distributed to various recipients. But this notion, though applicable to modern factory production, where all that is produced is meant for sale, fails in application to industries where the

producers are in great part the same people as the consumers, such as most of the cultivators of the soil throughout the world.

Further, the word distribution (as Dr. Sidgwick points out, *Political Economy*, Book II. ch. i.) is often used for the processes of carrying and retailing, and bringing the finished article to the consumer; and those occupied in such processes are sometimes called the distributing classes in distinction to the producing classes.

The use of the word distribution in this work is to serve as a convenient abbreviation for an inquiry into the problems of ownership and earnings mentioned above.

§ 2. **Triple Division of Income.**—In the Prologue the term *income* was explained as a periodical addition to a man's material goods, his *capital* as that part of his property used for the sake of getting an income, his *industrial expenditure* as that part of his expenditure made for the sake of income, in other words, for the sake of future gain as distinct from present enjoyment.

Now if we take this view of income, and remember that the two primary factors of production are things and persons (Bk. I. ch. i. § 1), and that capital without labour, and labour without capital, are barren and powerless (Bk. II. ch. x. § 2), the simplest classification of incomes seems to be into three kinds, according as the income is received for labour alone, or for capital alone, or for both combined; and the names most generally given are *wages* (or earnings) for the first, *interest* for the second, and *profits* for the third.

In this wide and abstract use of the three terms they will indeed include much that is not commonly called profits, interest, or wages. But this inconvenience cannot be avoided whatever terms

we use for the present purpose. Thus, under wages we must include not merely what is commonly known as wages of workmen and of domestic servants, but also the maintenance of slaves, the rations of soldiers, the salaries of clerks and managers, the fees of lawyers and doctors, even the official incomes of Cabinet Ministers. For the highest as well as the lowest forms of labour must be included without regard to stations in life.

Interest likewise must include all receipts from property lent, let out, or leased; and thus not only all interest on all sorts of loans, and most dividends paid to the shareholders of joint stock companies, but also what is commonly known as the rent of farms, houses, building land, shops, and factories.

Profits likewise must include not only the incomes of manufacturers and tradesmen, but the incomes of peasant proprietors and tenant farmers however small, and of such shareholders as in fact take part in the working of the business whence their dividends come.

§ 3. **Distinction of Industrial and Non-Industrial applied to Wages, Interest, and Profits.**—In the Prologue we saw how labour could be divided into industrial and non-industrial labour, according as its end was or was not the production of wealth. The wages of the first kind of labour can be called *industrial wages*, of the second *non-industrial wages*. A similar distinction can be made with interest. *Industrial interest* is that from property used in production, as the rent of farms, shops, and factories, the interest from most property used for commercial credit, the dividends of many companies, in particular railway dividends as far as not earned from pleasure traffic but from business traffic. Examples of *non-industrial interest* are the rents of dwelling-houses, railway dividends as far as derived from pleasure traffic, the interest of most property used for uncommercial credit. This non-industrial

interest has become enormous in recent years through two main causes, the vast growth of Government debts for war or ornamentation, and the vast growth of cities with the accompanying habit of living in hired houses. Finally, *profits*, though generally *industrial*, are not always so, examples of *non-industrial profits* being those of hotel and lodging-house keepers, of the lessees or managing owners of places of amusement, of pleasure steamers, of agencies for travelling.

§ 4. **Note on the Words Interest and Rent.**—At the end of the chapter on differential gains (Book II. ch. iv.) it was explained how the term rent or economic rent was frequently used to express them, and how serious were the objections to this use of language. Moreover, the word rent or rents seems in itself the best means of expressing as a general term all income derived from capital. In old English it has this sense, and has it still in French and German.

The French *rente* includes the three subdivisions, *fermage* or farm rent, *loyer* or house rent, and *intérêt* or loan rent. In German the word *Rente* is used as in French, but the three subdivisions just named are called respectively *Pachtzins*, *Miethzins*, and *Geldzins;* the common term *Zins* (the Latin *census*) being much the same as *Rente.* A man who lives mainly from such sources is called in both languages a *rentier*, for which we have no English equivalent, since "capitalist" is applied rather to one who is at work on his business than to one who has retired, and means rather an entrepreneur than a *rentier*, while "annuitant" generally implies that the income ceases at a man's death, and cannot be passed on to his children. So we have to use some clumsy phrase like, "a man of independent means," or, "a private gentleman;" and in the Census of 1891 special directions had to be given that "persons following no profession, trade, or calling, but deriving their income from land, houses, dividends, or other private sources, should return themselves as, 'Living on their own means.'" Still, however much we may regret it, the fact remains that in England and America the unfortunate use of the term rent to mean differential gains is widely prevalent, and seems likely to continue. Hence, to avoid any confusion in the minds of students, the author in this edition no longer uses the term "rents" for all income from capital, but uses instead the term "interest" as the best substitute. This will remove any risk of confusing the division of incomes adopted above, and based on whether they are received for labour, for capital, or for both, with any division based on whether they are differential gains or not.

§ 5. **Various Classifications of Income: Adam Smith's, Mill's, Walker's.**—Amid the many classifications of those

who divide the national wealth, other than the one adopted above, a few may be examined as examples. *Adam Smith*, assuming rightly the accumulation of stock and the appropriation of land as prerequisites of civilisation, makes three great orders of people, those who live by the rent of land, by the wages of labour, and by the profits of stock. By labour he means "productive labour," and holds that the revenue of all the other orders of society must be ultimately derived from the revenue of these three. (Book I. ch. iv.)

Among the objections to this classification is the difficulty of separating productive labour from unproductive, as we have seen already in the Prologue; further (a much smaller objection when Adam Smith wrote), that no proper place is assigned for the revenue of merchants, manufacturers, and other great employers; for he excludes any reward of their labour from the notion of profit, which is much the same as what Mill calls interest; moreover, he sharply separates the rent of land from the interest of loans, a separation (*Supra*, Book II. ch. iv. § 12) in the present day very misleading.

Mill, with his three classes of landowners, capitalists, and productive labourers receiving respectively, rent, profit, and wages, is hardly to be considered as making a new classification, only as giving that of Adam Smith's a little more precision, and thus developing its insufficiency. For he narrows rent to be a differential gain after the manner of Ricardo; and he widens profit so as to include three distinct notions, namely, interest (or the remuneration of abstinence) insurance (or the remuneration of risk), and wages of superintendence (or the remuneration of exertion).

Walker, rightly observing that the gains of employers were slurred over by Adam Smith and Mill, makes four classes instead of three, namely, the landlord receiving rent, the capitalist receiving interest, the employer or entrepreneur receiving profit, and the employed labourer receiving wages.

But under our present circumstances such a classification is liable to mislead. The separation indeed of the interest of the capitalist from the profit of the employer is desirable, but not the separation of rent from interest, and the consequent bisection of the *rentier* class, which is very inconvenient. Also there is no proper place for the multitude of small farmers and independent artisans who do not work for wages, and who yet are not employers and can hardly be called entrepreneurs.

§ 6. **Nicholson's and Marshall's.**—*Professor Nicholson* thinks that "corresponding to the three great agents in production, there are three great species of income, viz., Economic Rent arising from the gifts of Nature, Wages the return to Labour

and Profits the return to Capital." (*Polit. Econ.* II. p. 215.) But this classification, besides being open to some of the criticisms already given on Adam Smith and Mill, is based on the mistaken suppositions that the main factors of production are three instead of two, that "nature's" co-operation is not wanted in all production, and that we can practically distinguish what can be ascribed to nature and what to man. (*Supra*, Bk. I. ch. i. § 1.)

Professor Marshall gives the title of national dividend to the net aggregate of all the commodities produced, and says: "It is divided up into earnings of labour; interest of capital; and lastly, the producer's surplus, or rent, of land and of other differential advantages for production." (p. 609.) This triple division only agrees in number with the division adopted above, no one member being exactly equivalent in the two classifications. For Marshall's "earnings of labour" include the earnings of management which we put under profits, while they exclude those earnings of workmen which are differential gains. His "interest" excludes those receipts from capital which are differential gains. His "producer's surplus" is made up of various receipts which in our classification would be for the most part included under interest and profits, and in a small part under wages.

The first inconvenience of Professor Marshall's classification is the double basis of division: one, whether the receipt is differential (price-caused) or non-differential (price-causing); the other, whether it is derived from personal exertions or not. Then, as in Walker's classification, there is no suitable place for the *rentier's* income; and not even for that of the entrepreneur, for whom Walker fully provided. Thus an income of £5,000 which a managing owner gets from a factory, has to be mentally divided into two portions, earnings and interest, and probably into producer's surplus as well, instead of being all kept together under the common title of profits.

§ 7. **Is any Classification Desirable?**—The student may perhaps ask, and justly, what is the use of such vague and general terms as wages, profits, and rents, which include under a common name incomes of so different a character as those of a London physician and an Indian coolie (wages), or as those of an Irish tenant-farmer and a New York merchant (profits); or as those of a holder of Egyptian bonds, of an English landowner, of a Parisian house-proprietor, and of an Erie Railway Shareholder (interest)? The answer is, that although these general names tell us little about realities, and are only abstractions, still we must use abstractions if we wish to have a scientific grasp of the concrete, and not to be

lost amid the multitude of particular facts. Thus a classification of incomes such as suggested above, will make it easier for us to grasp the general characteristics of all income, and those of the main heads of income. If we understand these, we shall understand more easily the real historical forms of social organisation.

At the same time let us be on our guard against two mistakes that have been common among economists. One is to make use of the abstract term wages, profits, rent, interest, or others similar, and yet really to have in view some concrete and particular kind of revenue, as that of Irish landlords and their tenants, of Lancashire cotton-mill owners and their workpeople, of London bankers and those who borrow from them. In this manner many very local, particular, and transitory relations have been made to appear as general laws of distribution.

The other mistake is to avoid the real matters of importance, the great and necessary distinction of rich and poor, and the proper relations of friendship and mutual support, and to pay attention instead to statistics of average wages, interest, and profits, like a study of human nature based merely on observation of skeletons.

§ 8. **Complications in the Problems of Distribution.**—It seems a simple rule of arithmetic that, given the annual produce of a country, the larger proportion falling to any one of the three sharing classes, whether to the receivers of profits, or of rents, or of wages, the less remains for the other two. But this simplicity is delusive. For as we have seen in Book I. ch. vi., the same goods have much greater value to some people than to others; and some portions of the same kind of goods greater value than other portions. Hence the more or less of goods may immediately depend on who gets them. Then again, the proportion in which the produce is divided one year, may affect the produce of another year. Too low wages may cause inefficient work, and a smaller absolute sum to be divided between

interest and profits, which thus, by taking too large a proportionate share get a smaller absolute share. Too high wages, on the other hand, by fostering idleness and extravagance among the receivers may cause them also by taking proportionately more to get absolutely less. In truth, the moral dispositions and the social relations of the different classes in a civilised State, have the greatest influence on cost and produce; and wealth and welfare affect each other profoundly. Thus it is a delusion to look on the annual produce of a country as a cake of which the larger the slices of other people, the smaller is mine; for the social cake, unlike that of the confectioner, varies in size according to the manner in which it is divided. Moderate and reasonable profits, interest and wages, just like moderate and reasonable prices, are for the general good. In each particular bargain indeed, or particular payment, there is an opposition of interests and a danger of exorbitant terms. But then precisely the office of a humane and reasonable Government is to intervene with anti-monopoly laws, factory laws, usury laws, homestead laws, and many other laws, to check this individual snatching at immediate and private advantage to the general harm.

Much stress has been laid by some modern economists on the fact we have been considering, that the quantity of wealth partly depends on its distribution. Two points, however, should be remembered. The first is, that as long ago as 1863 this fact was urged by Ruskin. "If the actual existence of wealth be dependent on the power of its possessor, it follows that the sum of wealth held by the nation, instead of being constant or calculable, varies hourly, nay momentarily, with the number and character of its

holders, and that in changing hands it changes in quantity." (*Munera Pulveris*, p. 37, Edit. 1886.)

The second point is not to exaggerate the consequences of this fact. Even in the passage just cited there is some exaggeration; and the word "accurately" should have been inserted before "calculable." A rough calculation of income is possible, and can be expressed in terms of money. It is indeed true, as I have urged more than once, that price is only an imperfect expression of value; still it is better than none at all. And though it is true that a man's income is a very incomplete indication of his welfare, still it is a definite item, which may help us in forming our judgment. But if we extend the notion of income to all sorts of economic goods (*e.g.*, to unpaid services, to leisure, to congenial occupations, to personal relations, to freedom, and to good government, as done by Dr. Smart, *Distribution of Income*, Bk. I. ch. xi.), the notion becomes too extended and too vague to be of use. (*Supra*, Prologue, §§ 15, 16, 20.)

CHAPTER II.

PROFITS.

§ 1. **Amount and Rate of Profit distinguished.**—The total annual receipts other than wages or interest are to be called the *amount of profit* and to be distinguished from the *rate of profit*, which is the relation of such receipts to the total property employed, and which is generally expressed as a percentage. The distinction is necessary; for a man may receive a very high rate of profit, say 20 or 30 per cent., and yet may be receiving a very small amount of profit, and a very small income. For as the amount of profit must, as a minimum, be enough to enable and induce a man to continue his business, the minimum rate of profit may be very high. For example, in Adam Smith's time a small grocer required some 40 or 50 per cent. on his small capital; else he could not have lived and brought up a son with the necessary technical knowledge to continue his trade. But though receiving so high a rate, he only received a low total amount; whereas, on the other hand, in a vast rolling-mill of our own day, a very low rate of profit will give the ironmaster a very large income. We can say that in the one case *the earnings of management* form a large proportion of the profits, and in the other case a small proportion.

§ 2. **Rate of Profit on Total and Single Transactions.**—We must also distinguish the general rate of profit made by a man on his capital, and the rate made on each particular transaction. Obviously the oftener these transactions are repeated, the smaller is the rate of profit on each that is needed to produce a given annual rate of profit from the whole capital. And thus there can be great differences in the rate of profit on *the turnover* as it is called, while the rate of profit on the capita may be exactly the same.

Hence, wholesale dealers, who are able to turn over their capital very rapidly, may make large fortunes, though their average profit on the turnover is less than one per cent.; while a profit on the turnover of nearly a hundred per cent. is required to remunerate the retailer of fancy goods which can be sold but slowly. (See Marshall, *Principles*, pp. 697, 698.)

§ 3. **Real and Nominal Profits.**—This distinction is important. Some obvious losses must obviously be deducted ; and the profit, for example, on each sale of goods that are liable quickly to go out of fashion or quickly to spoil (like ribbons, almanacs, fish, or flowers) must be made to cover the loss on unsold or depreciated goods. But there are other less obvious deductions before we can ascertain real as opposed to nominal profit.

First, there is the cost of technical education. If a business require much labour or property to be used in learning it, this cost must be paid for out of the receipts of the business before the real profits can be reckoned. Thus, from the nominal profits of an architect or engineer, a sum must be deducted

sufficient during an average lifetime to pay off the costs his parents were put to in giving him the needful training, or sufficient to enable him to bring up his son in the same business. Unless the average receipts in a particular business enable this cost to be defrayed, fewer young men will be enabled in the next generation to be brought up to it. In common accounts, however, no deduction of this kind is made, and profits may seem much higher than in reality they are.

Secondly, we must deduct the cost of making a business known whether by advertising in newspapers and on placards, or by the decoration of shop fronts, of reception and waiting-rooms.

Thirdly, we must deduct the cost of insurance against the risk of failure and ruin. How much, indeed, should be deducted is a matter of great complexity, because (*a*) failure and ruin mean such different things in different societies and different classes of the same society, according to the varieties of the law of debt; (*b*) the relative estimate of slow and sure gains compared with great and uncertain, varies immensely with individuals, classes, nations, and times; and (*c*) many risks are so complicated that all actuarial calculations are impossible.

It can even happen, owing to "the overwhelming conceit which the greater part of men have of their own abilities," and "their absurd presumption in their own good fortune" (Adam Smith), that the average profits in some hazardous trades are "absurdly" low. Indeed it has been said that at one period the Canadian timber trade and the Cornish tin and copper mining gave on an average no profits, but were carried on at a loss. And the same has been said of silver

mining in the United States. Only let us well remember that in order to reach the real profits of a reasonable man, we have not to deduct from his nominal profits the large sum needful to insure against the losses of reckless folly. For while reckless speculators may be reducing the average profits of a trade to very little, reasonable traders may all the time be so comparatively secure against failure, that under the head of insurance only a small deduction is necessary to reduce their nominal to their real profits. Here, as elsewhere, averages are a likely source of delusion.

§ 4. **Compensation for Unpleasantness.**— Distinct from insurance against loss, which is to be treated as a deduction before reckoning up net income, there is the compensation which that income ought to give for any unpleasantness of the occupation, that of a butcher, for example, which may require the minimum rate or minimum amount of profit to be higher than otherwise. Conversely, a very low minimum of profits may prevail where the occupation is not unpleasant, and where the independent position of working as one's own master is preferred to the higher earnings in another's service. Thus small shopkeepers may earn much less as profits than they might as wages (in Germany the profits of shopkeepers were said at one time to be very low), and yet knowing this they may all the while prefer to reign in penury than serve in plenty.

§ 5. **Question of the Equality of Profits.**— One notable question touching profits yet remains to be answered, how far we can speak of an equal or usual or current rate of profit, in the sense that actually within a given region there is an ascertainable rate not of nominal but of real profits, the same for almost every kind of business, and which any

one may reasonably expect to get. The assertion that for every country there is such a rate is called *the doctrine of the equality of profits* or of the existence of a *normal rate of profit.*

This is quite distinct from an *average rate.* An average, whether we can in fact find it out or not, is a mere arithmetical statement of pre-existing figures and tells us nothing about causes. There is thus obviously, for any period we like, an average rate of profit for any number of people we like, for example, an average rate of profit during the last ten years for old Sarum, for London, for the United States, for Europe, for the whole world. We cannot find it, except perhaps in the first case, but it exists. Those, however, who assert a general rate of profit are not simply uttering an arithmetical truism, but asserting the existence of a cause equalising profits, which is quite another thing.

Adam Smith held that in the same neighbourhood, after making allowance for unusual unpleasantness of risk, there was an ordinary or usual rate of profit, assuming (*a*) that the employments were well known and long established in the neighbourhood; (*b*) that the employments were in their ordinary or natural state, that is, not suffering any unusual excess or defect of demand or supply; (*c*) that they were the principal employment of those who occupied them, that is, with no considerable supplement of income from elsewhere; and (*d*) that no laws or institutions or combinations put any obstacle in the way of changing from one business to another or entering one rather than another. If all these four conditions were fulfilled, he held that there was an equality of profits in a neighbourhood. (Bk. I. ch. x. pp. 50—52, Edit. McCulloch.) And if we add a fifth condition (*e*) that there be little or no hereditary attachment to any particular trade, or aversion to

change, then his doctrine is true. For in a neighbourhood or society so simple, small, and stable that every one's past profits are known and future profits easily reckoned, the hatters cannot be earning much higher profits than the tailors, because some of the tailors or their sons would have already become hatters, there being no legal or religious obstacle to the change, no sentiments or combinations in the way. But plainly the case where all these many conditions are fulfilled is exceptional. Even in Adam Smith's time the conditions were only imperfectly fulfilled in the small and sober towns of Great Britain, at a time that was precisely the most favourable for their fulfilment, namely, the interval between the legal and corporative organisation of trade that was decaying, and the new period that was beginning of unregulated, uncertain, speculative, and world-wide trade, of progressive mechanics and progressive chemistry, about to render the management of industry so complicated and so difficult.

§ 6. **Mistake of Adam Smith and his Followers.**—Adam Smith himself in the fourth book of the *Wealth of Nations* forgets the excellent limitations laid down in the first book (cited above); and assuming universal free competition and universal knowledge, speaks of the "ordinary profits" of farming stock and of mercantile stock (Bk. IV. ch. v. p. 236), and of "the ordinary rate of British profit," and "the ordinary rate of profit in any country." (Bk. IV. ch. vii. p. 269.) Unhappily it was not in his character of shrewd observer, but in his character of physiocrat theoriser, that Adam Smith was followed by the economists, notably by Ricardo, who believed or assumed that the profits in different employments in a whole country were equal; and worked out in elaborate detail the consequence of this doctrine. This error is now scarcely maintained in its crude form, being obviously in

contradiction with the following facts: (*a*) that to move capital is very difficult in the case of many employments, machinery and buildings being in general only applicable to a particular employment. (*b*) That technical knowledge and skill is in many cases quite untransferable to another trade, and rarely transferable without great loss. Both these facts *a* and *b* have become more important by the growing use of elaborate machinery and the growing need of specialised technical education. (*c*) That the profits actually made by different men even in the same business show the greatest diversity, the result of various differential advantages due to the law of increasing returns, to variety of personal capacities, and to other causes set forth already. (Bk. II. ch. iv.)

More modern economists have therefore presented the doctrine of equality of profits in a more reasonable form. Instead of actual equality, a general *tendency* to equality is asserted, or an equality of *expectation* of profits; and sometimes, instead of equality being applied to a whole country, certain *non-competing groups*, as Cairnes called them, are recognised, and equality of profit only asserted within each group, not between one group and another. In this way the incongruity is escaped of supposing a parent gravely to compare the respective rate of profit among the cotton-spinners and the costermongers, and to start his son in the most profitable of the two.

But even in the amended form, nay, even as modified in the careful restatements of Professor Marshall, the theory of an equality of profits is to be rejected. For among the other assumptions on which it rests, two of the chief are that there exists a knowledge of the profits of different trades and employments sufficient to enable those who have new capital and young entrepreneurs under their direction, to direct them to the most profitable trades; and secondly, that combinations and monopolies are not strong enough to keep out these new incomers. Concerning the second assumption enough has already been said in the chapter on non-market prices (Bk. II. ch. iii.), and it follows that any theory which assumes the absence of combination is inadmissible in the present conditions of business. It remains to show that the other assumption on the knowledge of profits is also inadmissible.

§ 7. **Hiddenness of Profits** —To ascertain profits amid the changes, chances, and multitudinous enterprises of our day, is very difficult; the amount is often kept a profound secret: if low, to keep off creditors: if high, to keep off competitors or claims of workmen for higher wages; most men have enough to do with their own business without observing that of others; and the general fact is that the people in one trade

know little or nothing of the conditions of other trades. Indeed, almost every trade has its own way of valuing capital and allowing for depreciation; and there are many systems of reckoning what is "prime cost" and what "supplementary." And the circumstances of different localities differ as well as those of different trades. (Cf. Marshall, *Principles*, pp. 433—435.)

Then again many people have themselves no precise knowledge of their own profits, not merely peasants and farmers who, many of them, keep no accounts, but even British manufacturers, whose prevailing ignorance of costs is emphasised by a competent witness (Mr. E. J. Smith, in the *Economic Review*, April, 1898, pp. 163—168), in particular their ignorance of working expenses; and how this accounts for much disastrous underselling—not knowing the cost, they sell under cost price.

And even if the past were known, the future could not be judged from the past. "The changes in production and the condition of trades, in international competition, and in prices, the effects of speculation, fluctuations of credit, and commercial crises, of scarce and abundant seasons, wars and other political events, new discoveries and inventions, would upset all these calculations." (Cliffe Leslie, *Essays*, p. 49.) Indeed, the fluctuations of many prices through speculation have made the gains of many dealers as uncertain as a lottery. Moreover, the history of commercial crises, the many failures, the foolish lending and misdirection of labour and capital, already noticed (Book II. ch. x.), show that instead of the sagacious and calm choice of the most profitable employment such as is imagined by economists, there is a blind rushing after wealth by much of the mercantile world, and foolish alternations of optimism and panic. Thus the increase of credit increases rather than diminishes the inequalities of profits, and banks do not and cannot direct new wealth and young men into the most profitable channels, in such a manner as to effect an equality.

§ 8. **Movements of Labour and Capital fail to equalise Profits.**—It may indeed be urged that men and things, labour and capital, do in fact pass from one employment to another in the hope of greater gain, especially young men and new capital. Indeed they do; and this rush after higher profits or easier conditions of life is one of the prime movers in history. Doubtless also this is a force tending to equalise all profits and all wages. But then it is not the only force; much rather the perpetual liability of industry to changes in productiveness, the perpetual liability of men to error and ignorance, the perpetual tendency of men to coalesce in

combinations, are all forces acting in another direction; so that if we extend our "long run" ever so far, we shall not be any nearer reaching equilibrium than now. Each particular case of huge incomes from one particular branch of trade (as the cotton trade a hundred years ago and the wholesale clothing and provision trades now) may be only temporary; but the phenomenon of inequality is permanent. (S. and B. Webb, *Industrial Democracy*, p. 677.)

The migrations, then, of population and capital may indicate inequality of wages and profit, but do not remove it. Sometimes even, *per accidens*, they increase it. For not seldom when extraordinary profits are unveiled, the opportunity for making them is just passing away, and the rush of new men and capital only meets with disappointment, and great works can barely be kept going in the now overstocked industry; while a sad experience has proved to many emigrants that they would have done better had they stayed at home.

§ 9. **Conclusion.**—Our conclusion then is that of Cliffe Leslie, that there is no general or current rate of profit, nor again (as we shall prove presently) of wages; and that the doctrine of the equality of profits, even in amended forms, like those adopted by Cairnes and Marshall, is illusory. It follows that the elaborate theories built up on that doctrine and on the sister doctrine of wages fall to the ground, such as the Ricardian theory of rent, the theory of the sure transference of indirect taxes to the consumer, and the theory of normal or long-period prices distinct from average market prices, and the result of producers inevitably getting their normal profits and normal wages, at least in due course of time. By the removal of these confusing theories the teaching of economic science is made both shorter and clearer.

The reader may be referred back to the discussion on the theory of normal value (Bk. II. ch. ii. §§ 16, 17), and to the note on the Ricardian theory of rent. (Bk. II. ch. iv. § 11.)

CHAPTER III.

INTEREST.

§ 1. **Various Forms of Interest.**—The use of the word interest has been sufficiently explained at the beginning of this Book. It is here used as a general term to express a person's receipts for his capital alone, as distinct from his receipts for his labour alone (wages), or for his labour and capital combined (profits).

Many varieties of income come under this head. Thus, among the forms that interest can take, the following are conspicuous in modern England: (1) agricultural rents paid by farmers; (2) mining royalties paid by lessees of mines; (3) ground-rents of all kinds of buildings; (4) house rents; (5) rents of shops and factories; (6) annuities, rent charges and similar payments made, partly by Government, partly by insurance companies, partly by other private individuals; (7) interest from Government stock or from loans to local authorities; (8) interest from private loans, notably from bonds, mortgages, and debentures; (9) dividends from shares in joint stock companies.

All these receipts have an essential similarity in being receipts simply for property, and thus deserve

a common name, *interest*, though in ordinary conversation they have different names according to their sources or legal character.

Regarding No. 9, the fact that dividends received by the shareholders of joint stock companies are practically of the character of interest rather than profit is rightly urged by Professor Sidgwick. (*Political Economy*, pp. 257, 258.) This was understood by the Dutch economist Melon, who wrote in 1734, and pointed out that both the shareholder and the *rentier* received their incomes in precisely the same manner. (Cited by Claudio Jannet, *Le Capital*, p. 158.) No doubt legally the shareholders are not creditors, and though sleeping partners, are still partners. But in this case, as in many others, the legal aspect is not the economic. For practically, and therefore economically, the property of the shareholders is out of their hands, and in the hands of others, and the returns they receive from it is of the nature, not of profit to them, but of interest. That these returns are variable does not alter the question; for some other forms of interest are variable, like uncommuted tithes; and the difference between interest and profits is not that the one is a fixed and the other a variable sum, though this is usual, but that the one is for property alone, and the other for labour and property combined. Thus Professor Hadley well says: "Interest from the standpoint of the lender is the price for which he is ready to forego the chances of control which . . . the ownership of unconsumed wealth gives him. It represents commuted profits." (*Economics*, p. 270.)

§ 2. **Amount and Rate of Interest distinguished.**—As in the case of profits, so in the case of interest we must distinguish *amount* from *rate*. The amount of interest is the total annual sum received in this form from any of the sources given above; the rate of interest is the relation of such receipts to the total property from which they are derived, and is generally expressed as a percentage. Thus when an Austrian Jew lends a peasant 500 florins, and gets back annually, one way or another, 200 florins, we say the rate of interest in this case is

forty per cent. When a man having invested £2,000 in some English railway stock some years ago, while the price was £80 for £100 share, now receives a dividend of seven per cent., we say he makes eight and three-quarters per cent. on his investment. When, as at one time in England, well-situated estates can be sold at over thirty years' purchase, that is, at over thirty times the annual rent, we say in such cases that if you invest in land you can only get about three per cent. on your investment.

There is indeed, as Professor Sidgwick (*Political Economy*, pp. 258, seq.) has pointed out, a *complication* in determining the relation of the interest to the principal, that is, the relation of the annual receipts to the total property, because the price obtainable for that property greatly depends on those receipts. Thus in the second case given above, if the railway stock can now be sold at £140, that man's property in one sense can be said to amount not merely to the £2,000 he originally paid for the stock, nor to the £2,500 nominal stock which he procured, but to the £3,500 for which that stock can now be sold; and in this case the rate of interest he is receiving is only five per cent. Again, in the third case, the buyer of the estate may only get three per cent., but the previous holder, receiving exactly the same rent, yet having inherited the property from his father, who bought it say at half the present price, was in one sense receiving six per cent. And conversely, at the present time much land is bought at sums that allow the purchaser from three to five per cent. on his outlay, with the rents as they are; but the seller, or his father, having bought at a much higher sum, was only receiving just before the sale from one to three per cent. on his outlay. For most purposes it is simplest to reckon the rate of interest as the relation of the annual yield of a property, not to the past, but to the present price obtainable of that property.

§ 3. **Real and Nominal Interest.**—To ascertain real or net interest we must make various deductions from nominal or gross interest, of which the chief in the case of specific property let on lease, are expenses

of repairs, and in the case of generic property out on loan, insurance against losing the principal. Both deductions often are very difficult to reckon; in particular that for risk (for *false interest* in Walker's phrase); on which matter we can refer to what has already been said on the difficulties of a similar deduction in reckoning real profits.

In any market, where there is a current rate of interest, the dealers in that market do in fact make a reckoning as best they can, and deduct insurance. So on the London Stock Exchange many investments that give precisely the same interest are to be bought at very different sums. But the reckoning has not proved very correct; and probably extra-hazardous investments so allure one set of people by high interest, and extra-safe investments so allure another set of people by their security, that both are rather overvalued from an actuary's point of view, and the intermediate investments undervalued.

§ 4. **Question of the Equality of Rates of Interest.**—Having seen that it is a mistake to speak of a general or current rate of profits, and of equality of profits, we may be tempted rashly to conclude that the case is the same with the rate of interest. It is indeed the same if we imagine a single rate for all leases and loans all over Great Britain, or even for loans only. For multitudes of such transactions are shrouded in secrecy, in many there is the pressure of necessity, the weakness of simplicity, the blindness of the rake's progress towards his ruin. And although secrecy, pressure, and folly are most common in uncommercial credit, they are not unknown in commercial credit; and to suppose that after reasonable allowance has been made for variety in the risk of repayment, all traders in the kingdom

can borrow at the same rate of interest or discount, is an idle supposition. Nevertheless, keeping strictly to what can be known, and avoiding the conjectural, we can speak, not indeed of the current rate of interest, but of current rates.

The mistake therefore to be avoided is to speak of *the* rate of interest in a country, and to compare it with that of another country or another period, without specifying what particular rate of interest is meant. If the phrase is to be used at all, it is best to use it for the rate of interest on stock exchange securities. But then, as we saw at the beginning of Book II. ch. x., these great markets for securities are comparatively new; and thus to compare the average return yielded by good securities in London or Berlin with "the rate of interest" in England under Cromwell, or in Prussia under the Great Elector, would be fruitless and misleading.

§ 5. **Various Current Rates of Interest.**—The most important of such rates is now (unlike the case only one century ago) the rate on stock exchange securities. The point here to notice is that in each commercial centre at any given time there is a current rate of interest for such securities, and that their price will be exactly what will give the buyer that current rate with something in addition if there is any serious risk to be insured against. Hence if the four per cent. debentures of a large and prosperous railway can be bought at par, that is, at £100 for a bond of £100, we can say the rate of interest of securities in that stock exchange is four per cent. If, *ceteris paribus*, the same debentures can be sold for £120 each, we can say that the rate is three and a half per cent.; but if they can be bought for as little as £80, we say the rate is five per cent.

Special reasons may cause particular stocks to have something of a scarcity value, like the English Funds, which

the action of the law has rendered a favourite investment for trustees, and sometimes, as in the case of savings banks, a compulsory investment. Hence we may say that the interest on Consols has been and is below the current rate of interest on securities in the London stock market. In fact, while Consols were being quoted at 105 to over 110, they were reckoned in the balance sheets of certain banks as if they were below par—as low as 90 by one great bank. (*Economic Journal*, December, 1899, p. 585.)

Another current rate of interest is what is called the rate of discount, sufficiently explained in Bk. II. ch. viii., and which depends on the relations of bankers and traders, and varies quite independently of the current rate of interest on securities. Other forms of lending have also current rates of their own, notably the lending on mortgage as conducted by banks, lending on deposit, and lending on ships or cargo. As far as there are markets in these cases, they are distinct from each other and from the markets for other kinds of loans, and the rate of interest is distinct; while as far as there is no market, there is no current rate of interest, only a heap of separate rates.

How there are many different markets for commercial lending, and how a good deal of commercial lending is non-market lending, can be seen from a white book issued by the Foreign Office, December, 1893, on the system of discounts and other credit in foreign ports. Systems vary with different ports, different goods, and different classes of buyers at the same port. Thus at Antwerp, the grain, wool, rice, hide, coffee, tallow, and timber trades have each their own usages; and at New York, silk, indigo, coffee, pepper, sugar, and cocoa each have markets with their own customs.

Further, in a commercial country, where land and house property are sold so frequently, that there is a market for each of them, we can speak of a current rate of interest on investments in land or on

investments in house property, or what comes to the same thing, we can say that land or houses are selling in their respective markets at so many years' purchase.

§ 6. **Grounds for the Varying Rates of Interest and Discount.**—What are the causes of the particular rates of interest current at given times in given commercial centres ?

Rates of interest, like prices in other markets, are determined immediately by demand and supply; and where there are great fluctuations in the supply of loans or in the demand for them, we must expect great fluctuations in the rate of interest for them. This is notably the case in the form of lending called bill-discounting: and the rate of discount in London has been known to vary by more than five per cent. within a short interval, while the rate of interest on stock exchange securities remained the same.

The market for short loans, such as discounting bills of exchange, is in fact distinct from the market for securities, and is liable to great and rapid fluctuations according to the state of trade, fluctuations aggravated in England by the single reserve system of banking described in Bk. II. ch. ix. § 8.

It may be asked why a banker prefers to make loans at one or two per cent. rather than buy securities that will yield four per cent. at equal or less risk. The answer is that for a great part of his capital he has no desire to find a permanent investment, but wishes it free to meet sudden calls or to take advantage of high rates of discount; and it will be free again in about six weeks' time (on an average) if invested in bills of exchange. No doubt he can sell good securities at any time; but the inevitable expense of stamps and brokerage at each sale, and the likelihood of having to sell at a price lower than he gave, outweigh the brief advantage of the higher interest. And the risk is still greater if the securities are not first-class and are liable to be depreciated by his selling them. Con-

versely, the rate of discount and interest on short loans may be much higher than that on securities, because the making of such loans, as Nicholson points out (*Political Economy*, II. p. 228), "is a business requiring special training and special establishments. The ordinary holder of Consols certainly cannot take advantage of the rise of the rate of discount in a panic to sell his stock and take to discounting bills or making other loans with the proceeds."

In general, when trade is active there is a great demand for loans, because traders are eager to turn over their capital as fast as possible; whereas when trade is slack they have less need of cash, and offer fewer bills for discount. (Clare, *Money Market Primer*, p. 137.) But adversity may produce the same effect as prosperity; and when there is little surplus capital to be deposited in banks, the banks must charge more for the loan of that little. Again, apart from prosperity or adversity, business habits may lessen the use of credit and the demand for discount. "Instead of settlement by bill, a growing preference appears to be shown for settlement by cheque or by cable-transfer—a means of payment that avoids the uncertainties of a fluctuating discount-rate, saves the cost of bill-stamp, and reduces the risk of loss to a minimum." (*Ibid.* p. 138.) Hence bankers complain of a scarcity of bills, and must pay more for them, or, in other words, must charge less discount.

§ 7. **Five Influences affecting Average Rates of Interest.**—Let us look now at the more permanent influences affecting average rates of interest, especially of the rate of interest yielded by securities. These more permanent influences are as follows:

I. **The Productivity of Industry.**—If the natural resources of the country, the number of the inhabitants, and their proficiency in the arts, are all favourable to production, current rates of interest may be much higher than otherwise, for the simple reason that people will give a great deal for the use of property, if a great deal is to be made by its use. The great productivity of industry in certain stages of colonial countries, where great natural resources

and unexhausted soil are combined with the arts and experience of long-settled countries, is one of the grounds why rates of interest are so high in such countries, as in New England at the beginning of the nineteenth century, and in the Western States at the end. Obviously indeed the current rates in such cases must be somewhat less than the hoped for profit from the capital borrowed; or there would be no motive to borrow.

§ 8. **II. The Desire of Future Income.**—This is opposed to the desire of present enjoyment, and is sometimes called the *desire to save*. Where this is very strong, the accumulation of means of production may be great compared with the number of people who engage in production, and the use of property can be got in some loan-markets so easily, that little is paid for its use. Hence the low rates of interest in Holland in the eighteenth century. Hence in part the low rates of interest in London and Paris in the later years of the nineteenth century.

The fallacy that unlimited investment or accumulation at undiminished rate of interest is always possible without increase of population and without extension of territory or improvements in the arts of production has already been noticed as the compound interest fallacy. The limitations of the productive capacities both of the earth and of man make such increase impossible.

It is conceivable that rates of interest might fall still lower even than the one-half per cent. which is sometimes all that London bankers can obtain; even *negative interest* might be paid, namely, instead of the borrower paying interest, the lenders might have to pay the borrower for taking charge of their capital till such time as they were more in need of it,

and the borrower would be assimilated to a warehouseman. This might happen, as Marshall notes, where "the mass of the people are so anxious to provide for old age and for their families after them, and in which the new openings for the advantageous use of accumulated wealth in any form are so small, that the amount of wealth for the safe custody of which people are willing to pay exceeds that which others desire to borrow." (*Principles*, p. 666.) Indeed, where hoarding is the means used for meeting future necessities, the expenses of hoarding may be called a case of negative interest. Similarly the Bank of Amsterdam, instead of allowing interest on deposits, made practically a charge for receiving them. (Adam Smith, Bk. IV. ch. iii. p. 215, Edit. McCulloch.)

§ 9. **III. The Desire of Present Ease.**—Rates of interest are affected by the desire of living from interest rather than from wages or from profits. The sooner men of business desire to retire from trade, the greater eagerness with which the life of a *rentier* is sought after, the greater the numbers of the investing compared with the enterprising classes, the lower will be the rate at which, *ceteris paribus*, the entrepreneurs will be able to secure the administration of the property of the investors. The low rates of interest in Spain in the eighteenth century, and in London now, are perhaps in part to be attributed to the great demand for incomes without the trouble of management.

On the other hand, the high rates of colonial interest are partly due to the fact that nearly every one wishes to manage his own capital, as Hadley testifies for early New England. (*Economics*, p. 284.)

§ 10. **IV. Private Non-Industrial Borrowing.**—Rates of interest are affected by the dispositions inducing borrowing for non-industrial purposes. For example, the conditions of land tenure, of successions to property and of taxation, may make borrowing by landowners a necessity (as seen in the chapter on uncommercial credit). Again, the conditions of society requiring great expenditure at certain times, may require indebtedness, like that of the Hindus for weddings. Again, a great difference may be made by the moral conditions of society in the demand for loans for dissipation: a demand that in the Rome of Julius Cæsar was so great as to be a factor seriously affecting rates of interest, but in traditional Scotland and Holland, so little as to be a mere *quantité négligeable*, not worth attending to.

§ 11. **V. Public Borrowing.**—Rates of interest are affected by the political conditions favourable or unfavourable to the borrowing by Governments of vast sums, especially for non-industrial purposes. The sum annually payable at present by central and local Governments on account of loans for defensive, ornamental, or educational purposes, is probably over three hundred million pounds, and the principal of the debt over six thousand millions (6,000,000,000). The direction of such vast sums, the greater part within one half century, towards such purposes, must have tended to raise rates of interest, especially on securities; though something must be taken off for the counter-tendency due to the fact, that wasteful military expenditure and municipal

display have done some injury to the productivity of industry.

§ 12. **Interaction of the Five Influences.**—The action of these five influences is very complicated; for they partly assist, partly counteract each other, and do not affect every kind of rate of interest alike.

The desire of future income and the desire of present ease are plainly in opposition, and their force variable according to period, place, nationality, country, religion, rank in society, and other causes; all of which affect the choice, in Marshall's language (Book III. ch. v.), between "immediate and deferred uses," or "the rates at which future benefits are discounted." Again, alterations in rates of interest may affect in contradictory ways the amount annually invested: there is less inducement to save if the interest obtainable is small; but then in order to get the same income at a future time, a larger sum must be invested, and so there is an inducement to save more. Nor is there any means of reaching the net result—except guesswork.

Hence it is impossible to tell shortly and certainly why, for example, the current rate of interest on securities in the London market is just what it is, no more and no less. The inquiry is very complicated, the results uncertain. But then happily there need be no check to wise and humane legislation because these questions are unanswered.

Observe that just as one market price gives different advantages to different buyers and sellers, so one current rate of interest gives different advantages to different payers and receivers. The skilful or fortunate entrepreneur borrows on the same security in the same market at an equal rate with the dull and unfortunate, though the one will make by the loan perhaps twenty per cent. over and above what he pays for it, and the other not one per cent. Again, the private circumstances of two *rentiers* may be such, that a similar rate, say five per cent., on a similar sum, say £5,000, may enable one of the two, being an invalid, to live in comfort, but be only just enough to have tempted the other, being an active

man, to retire from business. The invalid must have put up with two per cent. rather than not invest his property; but the active man would not have put up with even four and three-quarters per cent., but would have continued in business.

§ 13. **Question of the Equality of Rates of Interest.**—Another question is how far rates of interest are uniform throughout the world. Obviously in the vast region of the unknown, in the field of hidden lending, there can be no current rate or uniformity even in the smallest district, much less in a province, or a country, or the world. But where there are markets and current rates of interest well known to commercial men, we ask if it is possible that in any one market the rate of interest can be for any considerable time considerably higher than in any other? Is there not, at any rate in our own day, with means of information so ready and of communication so rapid, only one great cosmopolitan market for loans, and only one rate of interest for the civilised world? For though the productivity of industry, the desire of future income, the desire of living the life of a *rentier*, the dispositions that make men borrow for non-industrial purposes, the political conditions—in short, all the more permanent influences affecting average rates of interest—differ much in different countries and places, this in itself need not hinder common cosmopolitan rates of interest, no more than in any market the varying circumstances of the buyers and sellers hinder the attainment of a common market price.

Undoubtedly, however, there are no such

common rates throughout the world, as is patent from well-known facts.

"For a long term of years," Walker observes, "the loan of capital could be obtained upon what was locally regarded as approved security, for four per cent. in London as freely as for six per cent. in New York, or eight per cent. in Chicago, or twelve per cent. in Iowa or Kansas." (*Political Economy*, pp. 230, 231.) While the London banks in 1895 and 1896 were glad to get one per cent. for loans, the country banks in the West of England were allowing 2½ per cent. interest on deposits withdrawable on fourteen days' notice, because they could get a great deal more than 2½ per cent. for loans in their districts. The average rate of discount is higher in Bombay and Calcutta, even in towns in Scotland, than in London, which is in such intimate connection with them all. And year after year a considerable difference is maintained in the average rate of discount in Berlin compared with St. Petersburg, Paris compared with Madrid, Brussels compared with Genoa. And between different markets for land, similar striking differences are to be seen in the number of years' purchase for which it will sell.

§ 14. **Movements of Labour and Capital fail to equalise Interest.**—The ground for such diversities is clear if we keep in mind that in order to equalise such various rates of interest, men and property must pass from the one place to the other, and that such a passage always occasions some cost, sometimes great cost, and besides is often checked by disinclination. Even those who purchase securities on a stock exchange prefer, if possible, an investment close at hand where the language, manners, and above all, the law is familiar to them; while those who wish to control or superintend their property must have that property near to them. And bankers who have so much to do with the direction of national savings, direct them by preference or necessity to where they can have some

personal knowledge of those who use them. The bankers of London if they are to gain the advantage of the high rate of discount prevailing in San Francisco or Montevideo, or even in Lisbon or Genoa, must set up business in these towns; and rather than migrate with their persons or their capital abroad, they prefer to put up with low interest at home.

But though diversities of interest are not equalised by the transfer of men and things to where they are higher, this transfer is frequent, as in old times when Hanseatic and Italian agents were scattered over Europe (of which our "Lombard Street" is a memorial), and as in our own time when English financial agents, and in a lesser degree German, Belgian, Dutch, and French, are scattered over the world, and remit home vast sums as interest of all sorts of loans and investments made by the property owners of these countries in other countries where rates of interest are higher.

After the peace of 1815 great sums were sent out of England, first to Spanish America, then to Spain and Portugal, then to North America, then to make French, Indian, and German railways. In the last few years immense sums have been sent to Australasia, South Africa, and Argentina.

We must be careful not to think because such investments are expressed in terms of money, that money is what is invested, and that a high rate of discount attracts gold (or silver, as the case may be), till general prices are affected and rise. In reality, as explained at the beginning of Book II. ch. x., it is precisely money that cannot be invested. And if high discount attracted gold, we could never have got all that heap of gold from California and Australasia, in both of which the average rate of discount was for years double or more than double what it was in London. See the discussions in the chapter on the Foreign Exchanges.

§ 15. **Alleged Historical Decline in Rates of Interest.**—It is often said that with the progress of civilisation there is a tendency for the interest on loans to be lower, for the price of securities to grow higher, for land to be sold at a larger number of years' purchase. But it seems doubtful, considering the insufficient data and the complication of causes, whether we can reach any secure conclusion.

We have already seen (p. 92) the probability of a secular equilibrium in the arts of production among civilised men; which means that if we compare any long period of civilised life with another, the productivity of industry in both will be pretty much the same; or to put the same notion in other words, that the triple alliance of the law of increasing returns, of industrial progress, and of colonisation, are together about a match for the law of diminishing returns. If this is true, the gloomy doctrine of Malthus and Ricardo that actually with the "progress of society" the returns from the soil have diminished, is not true, and the theory known as the tendency of profits to a minimum, as worked out by Mill, is not true. The same theory of a decline in the rate of interest is upheld on grounds different from each other and from Mill by the socialist Marx and the anti-socialist P. Leroy-Beaulieu: all three based on hypotheses, not on history. Adam Smith's doctrine is that as capitals increase in any country the profits shrink up, because of the growing difficulty of finding profitable employment for new capital and the consequent competition for that employment. (*Wealth of Nations*, Book I. ch. ix. and Book II. ch. iv.) This also is hypothetical, and seems to require a stationary population and the absence of improvements.

§ 16. **Two Facts seeming to indicate such a Decline.**—One of these is the undoubted decline during the nineteenth century of rates of interest in the United States and other colonial countries, and the other is the undoubted decline of the rates on commercial loans in Europe from the end of the middle ages to the eighteenth century. But both facts can be explained without supposing the alleged tendency to decline. In America the exceptional high profits made when a certain density of population had been reached and all the accumulated arts of centuries were applied to the choicest lands and best situations and richest mines and finest forests of a new

country; such profits made possible a very high rate of interest on mortgage and on commercial lending. By the action of the law of diminishing returns such exceptional advantages gradually pass away, and the average return to industry, the secular equilibrium in the condition of civilised man is reached. Thus we may confidently prophesy that within the next fifty years the rates of interest in the States of Dakota and Buenos Ayres will decline; but that afterwards they will have a tendency to go on declining is an assertion with no sufficient evidence to back it.

Nor will the second fact avail any more than the first. True that in the middle ages the customary rate of interest among traders was ten per cent.; that when a legal rate of interest was first fixed, it was fixed (under Henry VIII.) at ten per cent.; that it was successively reduced to eight, six, and finally in the eighteenth century to five per cent.; and that the market rates were always below it. But if this indicates the alleged tendency to a decline, what is indicated by the fact that in the eighteenth century the apparent decline was arrested, and that in many countries of Europe the average rates of interest have been as high or even higher in the nineteenth century than in the eighteenth? Besides, the seemingly high rate in those early times is illusory. The so-called mediæval rate of interest is no expression of the average return to holders of property, of the average interest of capital, but only of the rate for comparatively small loans, involving trouble and possibly discredit and risk, and made to traders whose profits were very high—twenty per cent. was considered customary—this height being due, partly to the absence of competition, partly to the large proportion of profit to be reckoned as earnings of management, and perhaps partly mere insurance against risk; but not due, like the colonial profits, to any combination of favourable natural conditions and high industrial skill and science.

CHAPTER IV.

WAGES.

§ 1. **Industrial and Non-Industrial Wages.**—Receipts for labour as such are to be called wages. The term in so wide and general a sense is capable of many subdivisions. First, taking as the ground of division the nature of the work, distinguish industrial from non-industrial wages. The first are paid when the end of the work is production; and are subdivisible into wages of labour in (*a*) agriculture, (*b*) mining, (*c*) fishing, (*d*) manufactures, (*e*) carrying, (*f*) commerce; or, as an alternative subdivision, into labour (*a*) in farms and gardens, (*b*) in mines and quarries, (*c*) in mills, factories, and workshops, (*d*) in boats or aboard ships, (*e*) on roads or railways, (*f*) in shops and warehouses. *Non-industrial wages* are paid when production is not the end of the work; and are subdivisible into wages of labour of those engaged (*a*) in ministering to the higher or greater wants of man, in the spheres of religion, science, literature, art, and medicine; (*b*) in performing political functions of any kind, and thus the highest as well as the lowest legal, military, naval, or civil employment; (*c*) in ministering to the lesser wants of man, or to his mere pleasures.

Strictly speaking, many of those engaged in carrying (the pleasure traffic) really belong to the non-industrial group; and many domestic servants to the industrial, as explained in the Prologue.

The division made above is based on the kind of work, not on the social condition of the workers. The payers of wages may be the few and the rich, while the receivers are the many and the poor; but not necessarily. "Scientifically regarded, professional men are labourers who are employed by a multitude of masters, and at any rate in his own department (*e.g.*, law or medicine), the person employed is superior to his employer." (Nicholson, *Polit. Econ.* I. p. 121.) Again, a salaried chemist, electrician, or engineer employed by a company, a co-operative business, or a municipality, is presumably in a higher position than the majority of his employers.

§ 2. **Time-Wages and Piece-Wages.**—Secondly, taking as the ground division the form in which wages are received, distinguish *time-wages*, or so much received for a certain time spent in labour, from *piece-wages*, or so much received for a certain quantity of work done.

Professor Marshall, observing that wages by the piece are by no means always a test of efficiency, because the employer may provide better or worse implements or materials, suggests the word *efficiency wages* to signify what is paid with reference to the exertion of ability and efficiency required of the worker. (*Principles*, p. 630.)

Many applications of time-work and piece-work and their payment in modern England are to be found in Webb's *Industrial Democracy*, Part II. ch. v. When, as distinct from quantity, the quality of work is all-important, payment by piece is inapplicable, or might be very injurious to the employer. Again, where there is great difference between one job and another, as in the work of engineers, shipbuilders, carpenters, plumbers, and bricklayers, the only way to secure a uniform rate of payment is by time-wages. On the other hand, in coal-mining, cotton-spinning, cotton-weaving, machine bootmaking, and several other kinds of factory work, payment by the piece can be so arranged as neither to injure the quality of the work, nor hinder a collective bargain of the men with their employer; and it is the men who insist on piece-work.

Hence it is a mistake to think that in general piece-work is the master's favourite, and time-work the men's.

Various other distinctions can be made in wages according to the form of payment, and can be found in Mr. D. Schloss' *Methods of Industrial Remuneration*, Third Edit., 1898. Thus fixed wages can be distinguished from progressive wages, where prizes or premiums are given; collective wages can be distinguished from those paid to single individuals or families; and collective wages themselves may vary much in character according to how they are distributed.

§ 3. **Definite and Indefinite Wages.**—If we are to compare different groups of workpeople and different times and places, this distinction must be borne in mind. Thus where board or lodging or garden ground is given, or rights of common pasture, of cutting fire-wood, turf, or timber, or free haulage of timber, stone, or coals, the payment for labour is indefinite. And where, as in many cases, the payments or perquisites have no fixed relation to the work done, but vary with the needs of the family, it becomes doubly difficult to reckon how much any one receives; for it is a fluctuating quantity, like the rations of well cared for slaves, or—a very different example—like the military, legal, medical, and educational provision, as well as insurance against industrial risks, which was the *quid pro quo* given by the mediæval lord of the manor for the task-work of his villeins.

In common language the word wages is often confined to definite payments in currency, and does not include payments in kind or any indefinite payments; and again is often confined to payments of lower domestics and lower work-people, while some other word like salary or fee is used for payments to those in higher positions. But one general term being required in economics, wages seem the best term.

§ 4. **Amount of Wages, Rate of Wages, Proportional Wages.**—The *amount of wages* is the sum of the annual receipts of a man or his family for labour as such. The *rate of wages* is the sum received for a definite amount of labour measured by the time spent in labouring or by the quantity of measurable work done.

Observe that amount and rate of wages mean very different things. Thus you may be paid at the rate of 30*s.* a week and yet the amount of your wages, that is, your income in the shape of wages, may be less than mine, though I am paid at the rate of only 20*s.* a week, because you work only 25 weeks in the year, whereas I work uninterruptedly. Thus, again, a boy and man may earn the same rate of wages per piece, but the man earns double the amount the boy earns, because working double as fast.

The word "earnings" is sometimes appropriated to mean the amount of wages, while the word "wages" is appropriated (more or less) to mean the rate of wages. But the distinction of rate from amount seems the clearest use of language.

Proportional wages are the receipts of workmen compared in their magnitude with the receipts of their employers. They are sometimes expressed as the share of the produce that falls to the workmen as distinct from the masters.

The notion of proportional wages is inapplicable in many cases, like that of domestic servants, where there is no produce to divide. Where applicable, then obviously, other things being the same, the more or less the men get, the less or the more will the masters get. But then other things are not the same, and, as we have seen in the first chapter of this Book, the produce itself may vary according to the manner of its division. In particular, low wages may cause work to be done so slowly and so badly, that the private costs of production of the employer would be less if he paid more. This is sometimes called the distinction between real and nominal cost of labour; and if we adopted Professor Marshall's phrase of efficiency wages, we could say that in such a case the employer, because paying too low time-wages or piece-wages, was paying too high efficiency wages.

In another way wages may often be raised without any loss to the employer by a more rational mode of payment, notably by payments in kind and various perquisites; for in many cases, notably those of railway companies and large employers, they can provide housing, food, fuel, recreation, means of washing, and other things for their work-people far cheaper than these work-people can provide for themselves. It is true that by what is called the truck system, such kind of payments may be made the means of oppression and fraud; but the abuse does not remove the use.

Finally, by reducing their payments to the *rentier* class it is obvious that the entrepreneur class will have in hand a larger dividend to be shared between themselves and their work-people; though whether this reduction can be made or ought to be made is not so obvious.

§ 5. **Real and Nominal Wages.**—If we wish to translate a man's *definite nominal rate* of wages into their *real amount*, we must take into account the six following circumstances:

First, the private utility of the definite goods given him as wages or of the goods that he can purchase with definite money wages. For the point is not the general purchasing power of money, but the price of the particular goods that are of use to the particular receivers of the wages.

Thus if pianos fall in price by one half, the real wages of the carpenters and masons in London would scarce be affected, whereas they would in Rio de Janeiro, where every artisan has a piano. And the great variations in the prices of the objects of workmen's consumption according to time and place, make all reckoning in these matters very difficult.

Secondly, the average duration in every year of the time passed without work, whether the interruption be due to the seasons, or to accidents, or to holidays, or to strikes, or to slackness of trade. Many statistics of wages are rendered of little use by the neglect to attend to this circumstance.

Thirdly, the average duration of the working life. This varies much among different trades and classes. The working life of a worker in lead is said to be shorter by a fourth than that of a worker in tin. If this is so, and if the costs of technical education are the same in each case, plainly the same nominal rate of wages must have deducted from it a sum larger by a fourth in the case of the workers in lead, in order to repay these costs, than in the case of the workers in tin.

Fourthly, the cost of technical education. The deduction under this head from the wages of common labour, is next to nothing; for some kinds of labour considerable, as for a cabinet-maker or plumber; sometimes very great, as for the legal and medical profession. Thus when we pay our fees to professional men a great portion is not so much for the service they have just then rendered us, as for the expenses of years of previous training.

Fifthly, certain technical or trade expenses as far as they fall on those who receive wages.

Where workmen have to provide their own tools, like the English shipwrights to the value of from ten to fifty pounds; or to find certain of the materials, as some tailors to find trimmings, and some quarrymen to find blasting-powder; or to provide particular garments for particular work, or light and fuel if they have to take the work home, or a consulting-room and carriage like a doctor: all these expenses have to be taken into account if we are rightly to estimate the real amount of wages.

Sixthly, any supplement to the definite nominal wages in the shape of indefinite wages, the nature of which has already been sufficiently illustrated.

§ 6. **Great Difficulty of ascertaining Real Wages.**—The foregoing remarks suggest, what in fact is known to the experienced, that it is a matter of great difficulty to ascertain the real wages of different classes of wage receivers, even in the same neighbourhood at the same time; and much more difficult if the comparison is extended to work-people of distant places, or of different manners, or of former times. And the causes on which each particular amount in each case depends are not simple, but complicated and obscure. Hence even trained inquirers find it always hard and often impossible to attain satisfactory results.

Thus Bevan, the statistician, remarked years ago that the question of wages was always a difficult one about which to gain accurate information; and Cliffe Leslie, that in England working-men often did not know each other's wages, even in the same town and in closely cognate branches of the trade; while there was great variety in the amount of labour exacted and in the enforcement of fines and deductions from wages in different workshops even in the same trade. More recent inquirers meet the same difficulties. The bewildering complexity of wages in many trades in London, and the difficulty of ascertaining them, appear in the volumes edited by Mr. Charles Booth; even in the same trade "no two factories in any of the minor industries can be relied upon to have the same system of engaging and paying learners" (i. p. 422); and employers are in some cases anxious and able to conceal what wages they actually pay (p. 457); "there are 'good' and 'bad' firms, and wages vary accordingly" (vii. p. 162); while for the great class of shop-assistants the great variety of their real situation is described in the *Economic Journal*, June, 1899, pp. 277—286.

Again, it is so difficult to compare the conditions of miners in different parts of England, that the attempt to do so, as a means for providing data for arbitration, has had to be abandoned. (Price, *Industrial Peace*, p. 59.) Professor Nicholson, referring to the coal strike of 1893 in the Midlands, notices on the difficulty of ascertaining profits and earnings how it is "hopeless for any outsider to form an opinion on

such a confused mass of evidence." (*Strikes and Social Problems*, p. 5.) The extreme intricacy of payment in the English cotton trade—the Bolton spinning list of piece-work rates has eighty-five pages closely filled with figures—is observed by S. and B. Webb, *Trade Unionism*, pp. 923, 294, 477; as well as the ever-changing details in iron manufacturing, and in the boot and shoe trade. (*Ibid.* p. 475.) And the same obscurity about real wages has spread to the country. "It is now almost impossible," says a competent observer, "to find two counties, or even two districts of the same county, in which either the methods of payment or the amounts paid are alike. . . . Of only a very few counties is it possible to state the actual wages being paid and received." See P. A. Graham, *The Rural Exodus*, 1892, pp. 105—109; also F. W. Lawrence, *Local Variations in Wages*, 1899, and the *Report on Standard Time Rates of Wages* issued by the Labour Department of the Board of Trade, 1900, showing great inequalities according to trades and localities.

On the great difficulty of calculating real wages in past times, of being sure about the measures used, the quality of goods, the regularity of employment, the willingness to work, the conditions of what was pleasant and unpleasant, and other obstacles, see Appendix I. to Dr. Cunningham's *English Industry and Commerce*, Vol. II. pp. 688, 689.

§ 7. **Maximum and Minimum Wages.**—It is scarcely possible to lay down in general even a maximum or minimum amount of wages without having to make many particular qualifications.

Thus the *maximum* wages of those employed for the sake of profit must indeed be less than what their employers anticipate will be the produce of their labour; else they would not employ them. But how much less is a variable quantity with almost every employer, as scarcely two employers are exactly alike in their opportunities of making profit; and the more they anticipate, the more they can afford to give to their workmen. In cases where there is a trade secret which workmen know and might reveal by working for another employer, the maximum may be paid to secure their fidelity. In many cases a subordinate, like a confidential clerk, is invaluable to a business, but only to that particular one, not to any other. The wages paid to such a man need only suffice to keep him from resigning his post, and may be much below the maximum. And even the shadowy maximum

we have discerned, fails us in the case of non-industrial wages where there is no definite produce to be anticipated. Thus there is no definite limit to the fees of doctors, the salaries of actors, or the wages of domestic servants. For the inclination and the capacity to pay of the patients, of the spectators, and of the masters, are indefinite.

Some writers speak of the great earnings of skilful professional men (doctors and lawyers) or of popular singers and actors as a *rent* of rare natural abilities or a *quasi-rent*, in other words treat them as *differential gains*. No doubt there is a certain analogy between the high profit of a skilful man of business and the high earnings of a skilful doctor or singer. But there is much more reason for distinguishing the two cases than for assimilating them, inasmuch as the profit is mainly the consequence of being able to make a fortune out of the *same prices* that leave the unskilful in their penury; whereas the earnings are mainly the consequence of being able to obtain *higher prices* than those received by the unskilful. These earnings have, in fact, more analogy with a scarcity price or a monopoly price than with differential gains.

Minimum wages might seem clearer; for surely they must be enough for a man or a family to work and live and rear a successor? By no means; for the minimum can sink much below this, and often has done so. The income of the labourer may be supplemented by alms, or by interest, for example, from a savings bank, or by profits on some petty industry, and he can thus afford to take wages lower than that imaginary mimimum. The comparative lowness of women's wages is partly due to their work not being their life career, but a prelude to marriage. Then again other labourers can be brought in to supply the place of those dying off through insufficient wages or overwork, and thus the decline of the wage-receiving population can be made up for out of the increase of other classes. Such has been the case of many negro slaves in the eighteenth century, of many coolies and other "natives" on plantations and mines in the nineteenth century; also of successive relays of deteriorated workpeople used up in sweated or parasitic industries described by S. and B. Webb in their *Industrial Democracy*, Part III. ch. iii. § d., *e.g.*, the cheap furniture, cheap clothing, and cheap boot trades, and casual dock labour in many of the large towns of the United Kingdom.

The *moral* or *conventional minimum* of wages—what will induce a man to work—is also obscure. As we saw in Book I. ch. vi., different sets of workers have a different *standard of life*—that is, their *conventional necessaries* are different, and they

will not work for wages less than sufficient to procure these necessaries. Nor can such a standard be altered suddenly by anything less than some great catastrophe like the Peasants' War in Germany in the first half of the sixteenth century. But it can be altered gradually. Again, payments in honour sometimes keep down the real amount of wages, witness the effect of the social honour paid to the military profession on officers' pay and, in a different rank of life, the effect on the wages of young shop-women of the honour they enjoy of being accosted as "Miss," and being designated as "young ladies." And "gentility" is accepted as part payment for women clerks and even women teachers. On the other hand, many occupations which, being dirty, hard, unhealthy, or in any other ways disagreeable, we might expect to be better paid, as a compensation, on the contrary are the worst paid of all; for laws and customs and hard necessity will induce men, like the miserable workers in the clothing and furniture trade of East London, to do almost anything for almost nothing.

Whether between maximum and minimum wages there is a point where wages *ought* to rest, whether in other words there is such a thing as fair wages, will be considered in chapter vi.

§ 8. **Question of the Equality of Wages.**— Let us now consider a very prevalent *doctrine of the equality of wages* or of the existence of *normal wages*, closely related to the similar doctrine on profits which has already been examined. In its most reasonable form this theory of wages only professes to apply to cases where there are no serious legal obstacles to a change of place and trade by workmen; and also admits within each country certain *non-competing groups*, such as common labourers, skilled artisans, still higher workmen, and professional men, and that wages may keep at a different level for each different group; but then within each group wages are asserted to tend towards equality,

the rising generation deserting those places or trades where wages are lowest, and flocking to those where they are highest. Even, however, in this moderate form the theory is untenable, being based on certain wrong assumptions.

§ 9. **Four Wrong Assumptions.**—*First*, the assumption of knowledge, that within each non-competing group all the workmen throughout a whole country are able to know all the differences of wages and work in all occupations open to their group, and thus direct their children to those where the net advantages are greatest. In reality, as we have just now seen, the difficulties of finding out real wages are so serious, that they often baffle the researches of educated men with abundance of time to make the inquiry.

Secondly, the assumption of a general power of choice even supposing adequate knowledge. In reality the expenses of moving to another place are often insurmountable by the very poor; and the very poor must put their children to the trade that will the quickest enable some petty addition to be made to the family income, and by no means to that which will give the boy or girl the best chance of future well-paid employment. Observe that the difficulty of changing one's trade is often heightened by such change involving removal to another town because of the localisation of trades conspicuous in modern times (*supra*, p. 98); and thus, as Walker well shows against Cairnes, the great majority of the children of the very poor are bound to the occupation of their parents.

Thirdly, the assumption of a general willingness to move. For in reality those precisely who being rather better off are able to migrate, may be bound by attachment to the scenes of their childhood, the resting-place of their forefathers, the home of their kindred and friends; bound also perhaps by ties of relationship or friendship to their particular trade.

Fourthly, the assumption of the absence of combination, when in reality, combinations of workmen or masters, or of the two in union, may and do keep up wages or keep them down, raise or lower them in particular places or employments, and frustrate any tendency to equality.

§ 10. **Conclusion.**—Remembering what has just been said, and also the discussion at the end of the chapter on profits; and remembering that no general tendency to equality of wages appeared from observed facts in the two generations preceding Cliffe Leslie (*Essays on Political Economy*, 2nd Edit. p. 380), nor have appeared in the generation that has followed him; we must reject the theory of normal wages, and must recognise the existence of all sorts of rates and endless varieties of real wages, according to employment, locality, and employer; and all depending on many complicated causes both physical and historical. Thus the last support of the doctrine of "normal" prices, such prices being supposed to be sufficient to allow "normal" wages to the workmen, falls to the ground.

No doubt there is a great migration of workmen into the new trades and places, and from the country into the towns; no doubt high wages in particular trades or districts are

sometimes brought down by arrivals, even sometimes raised by departures; no doubt where colonial countries are enjoying the exceptional advantages of old-world arts combined with new-world nature and exhaustive agriculture, very high wages are probable, and will be reduced by immigration as far as it causes the law of diminishing returns to come sooner into play. This is true, but not the whole truth; for lack of knowledge, lack of power, love of home, proneness to combine, are all forces acting in a different direction and just as incessantly as migration; and thus the movements of labour and capital fail to equalise wages just as they fail to equalise profits, the exception of colonial countries only proving the rule.

§ 11. **The Wages-Fund Theory.**—Not quite the same as the theory of normal wages, though connected with it, is the famous *theory of a wages-fund*, which in one shape or another long prevailed in England, Adam Smith, Ricardo, Malthus, and Mill being the most conspicuous exponents of it. The theory asserted that a definite sum was annually destined to pay wages of "productive labourers," and that hence if one set of such labourers got their wages raised by combination or by philanthropy, no advantage was got by the labouring classes as a whole, because there had of necessity to be a corresponding reduction in the wages of the rest.

But even if we could separate off productive labourers definitely from the rest of the community, for example from small farmers and handicraftsmen and small working tradesmen, the supposed definite sum devoted to pay their wages is a mere fiction. It is much rather indefinite and variable. For (*a*) precisely the payment of such labourers depends in great part not on previous accumulations, but on the produce of their labour. Often, indeed, wages are advanced before the work is finished, as to navvies constructing a railway; but this has no necessary effect on the proportion of the produce of that work to be assigned to the labourers, any more than the converse case, where the proceeds of the labourer's work get into the hands of their employers before the labourers are paid, as happens to railway servants. Again, though no enterprise which takes long to complete can be undertaken unless there is support for men and masters till it is completed, this only means that men and masters together must have an accumulation of the necessaries of life enough to carry them through, or be supported on credit by outsiders; and does not mean in the least that a definite sum and no more is to be assigned to the workmen as wages.

Again, (*b*) precisely the rate of wages which a particular employer calculates he will have to pay, may influence him

to employ more or less men, to substitute animals and machinery for workmen, and thus affect the number of "productive labourers."

Finally, (*c*) law, or combination, or public opinion, or conscience, compelling him to reduce his expenditure on wine and venison, on perfumes and satin, on horses and hounds: much of what is saved thereby may go into the pockets of these labourers.

True there might be less demand for wine and satin and loss to the labourers in the wine and satin trade, as well as to the poor "unproductive" grooms and coachmen; and precisely the later form of the wages-fund theory adopted by Mill urged such a loss, and made it appear, just as in the earlier theory, that if one set of workmen gained, others must lose in proportion, because the public, paying a higher price for what the lucky set of workmen made, had less to spend on what all other workmen made. But if the "public" have less to spend, the "lucky workmen" have more; and the smaller demand for satin and wine is balanced by a greater demand for beef and flannel.

§ 12. **Pessimist and Optimist Wage-Theories.**—The pessimist theory, known as the *iron law of wages* or the subsistence theory, was the application to wages of the theory of price being due to the cost of production. Labour was likened to a commodity, and thus its price could be ordinarily no more than its cost of production, namely, such wages as would enable the workman to live and rear a successor. The responsibility for this gloomy doctrine falls on Turgot, Say, and Ricardo; and in the hands of socialists it has served as a valuable argument against the present system of society.

The optimist theory, known as the *productivity theory* of wages, or the residual claimant theory, of which Walker was the conspicuous exponent, was a reaction both against the wages-fund and the iron-law theory, and held that the labourer received all he produced, after deducting certain sums for rent, interest, and profit. His share was residual, and like a residuary legatee, the larger the dividend the larger his proportion of the total.

Both pessimist and optimist theories suppose an imaginary competition, and both are opposed to observed facts. As far as there is a market with free competition, the forces of demand and supply mutually determine one another (as explained in Book II. ch. ii.); and as far as there is no market, we see customary prices, legal prices, and monopoly prices (as explained in Book II. ch. iii.). No general law of wages can be laid down, only the vague maximum and

minimum (as explained in the present chapter); and the notion that one class is the residual claimant, whether the workmen, as the optimist theory teaches, or the capitalists, as the wages-fund theory teaches, rests on fanciful suppositions.

§ 13. **Elements of Truth in Mistaken Wage-Theories.**—None of these mistaken theories of wages could have won acceptance had they not mingled with their mistakes certain elements of truth. Thus the theory of normal wages contains the truth that scarce any kinds of wages are arbitrary and incalculable, but much rather obey probabilities, are the result of actions that are to be expected, and thus may be called normal (as the word was defined in the Prologue). But instead of recognising a multitude of normal rates of wages due to a multitude of varying influences, theorists have imagined one general rate to which all others tended to conform; and have reasoned as though migration between industries or places was the predominant, not a co-ordinate, influence.

Again, the wages-fund theory points to the truths that there is a maximum of wages, vague indeed, varying and elastic, but still a maximum; and in like manner a minimum; and that more workmen cannot be employed in a country than there is food enough procurable to feed and materials to work on (the truth indicated by Mill's proposition: "Industry is limited by capital"). But these truths are distorted into the theory of a fixed sum which must reach the labourers anyhow, and which no moral forces can alter.

Again, the iron law of wages, though in itself a misrepresentation, points to the truth that where a great part of the inhabitants of a country live by wages, the average wages cannot provide more than a decent subsistence, whatever laws and institutions may prevail.

Finally, the theory of wages depending on the product of labour, though inapplicable in many cases and always misleading, still has the element of truth that the greater the produce of labour, the greater the possible maximum wages, and serves to remind us that often a rise of wages, by increasing the efficiency of the workmen, results in an increase instead of a diminution in the profits of the employer. This last point requires further explanation.

§ 14. **Theory of the Economy of High Wages.**—Wages being part of private (as distinct from public) costs of production (Bk. II. ch. ii. § 7), it seems that the lower the wages, the lower the costs;

and this is the common view to this day. No prospectus of a new enterprise will state as an inducement to subscribers, that high wages will be paid; but rather that labour is cheap and abundant, *e.g.*, in the prospectus of cotton mills in Pondicherry, that the ordinary salary of male coolies in the mills is about fourpence a day, and of females about twopence. And in the eighteenth century in England it was commonly held that high wages and leisure were injurious to all parties, inciting the workpeople to insolence, idleness, and debauchery. But in recent years some writers have taught that high wages meant good work, and *vice versa;* and employers were assured it was their own interest to pay high wages, or, at any rate, that their pockets would not suffer by the rise; the theory sometimes taking the form that the cost of work, as distinguished from the daily wage of the labourer, was approximately the same for all countries. Hence if the Lancashire mill-hand gets a shilling where the Hindu gets a penny, it is either an advantage to the Lancashire employer, or at least no loss, because the work done for the higher wages is at least twelve times as efficient as that done for the lower wages.

But this theory of the economy of high wages is an exaggeration no less than that of the economy of low wages. In both cases there are limits, that is, points beyond which a further reduction or further increase of wages will result in a loss to the employer; and the nature of the employment, as well as the physical and moral conditions of the workpeople, may make all the difference. Nor can

more in general be said than that where working hours are very long, wages very low, and conventional necessaries scanty, the change to shorter hours, higher wages, and a higher standard of life will result in greater efficiency of labour and increase of produce; that to promote such a change is the duty of a humane and reasonable Government; and that in such cases the plea of short-sighted or incompetent employers that their private costs of production will be increased and that the foreigner will undersell them, may be unhesitatingly set aside.

Whether indeed the contention of S. and B. Webb (*Industrial Democracy*, p. 763) that the decline of Glasgow cotton-spinning and West of England cloth trade are the result of the low wages paid in those places compared respectively with Lancashire and Yorkshire, may be disputed without affecting the argument. Still, two points must ever be remembered regarding the highly paid English or American workers equipped with first-class machinery, and making a short working day yield a vast produce. First, that this is done by a comparatively small body of picked men, and that no conclusion can be drawn that a similar large produce would be the result of a general rise of wages. Secondly, that these picked workers work at high pressure physical and mental; and thus (as we saw in Book I. ch. iv. § 12) the short hours and high wages may be illusory, having to compensate for exhaustion that reduces the advantages of leisure, and for premature incapacity that reduces the number of working years. Thus the longer hours and lower wages of more leisurely work may be no disadvantage. On this subject of "over-compressed labour" and the whole theory of the economy of high wages, see the excellent ch. x. of Hobson's *Evolution of Modern Capitalism*. The theory was anticipated in mid-eighteenth century by Postlethwaite; see Marx, *Capital*, ch. viii. § 5.

CHAPTER V.

RICH AND POOR.

§ 1. **Prerequisites of Civilisation.**—According to the evidence of facts and our knowledge of human nature, civilisation (as described, Bk. I. ch. ii. § 3) has two prerequisites: one, the existence of towns to give, as the words remind us, urbanity and civilisation, instead of rusticity; the other, the existence of a separate class of people with incomes so large as to allow leisure for easy and refined life, or for the higher functions of Government.

The term *rich* is used commonly and conveniently to express this class of people, as opposed to the poor or the middle-class; and the word *riches* is often used not as simply equivalent to wealth, but to much wealth, implying a large income or large capital.

Regarding the existence of towns little need be said; for it is hardly disputed or disputable that learning and literature, science and arts, technical training and inventions, require the concentration of teachers, the concentration of pupils, the concentration of the material apparatus of culture; and the centres are the towns.

A word of explanation is needed lest we think that the dreadful evils of modern urban concentration (*supra*, p. 148) are a necessity of civilisation, the heavy price we must pay for it. This sad view is not the true view; for the presence of towns needful for civilisation does not imply their excess:

it is quite enough for the purpose if a comparatively small proportion of the inhabitants of a country, perhaps five to ten per cent., be dwellers in towns; and if most of the towns be comparatively small, containing from twenty thousand to fifty thousand inhabitants. Colossal cities and an urban population of more than a quarter of the whole nation, are not prerequisites of civilisation, but a menace to it.

§ 2. **Distinction of Rich and Poor in Civilised States.**—The second prerequisite of civilisation, unlike the first, requires a good deal of explanation, as the matter, though simple, is very often very imperfectly understood.

In the civilised society in which we live we all know that there are different classes who do not associate together. And if we look carefully we can see that these distinctions are not according to whether each family lives by wages, by profits, or by interest, but according to whether they are rich or poor, that is, according to the amount and permanence of their incomes. Thus a cotton spinner making £5,000 a year and a cobbler making £50 both live by profits, nay, both by the profits of manufactures, but do not take their place together in society; and there is an equal distinction between a retired stock-broker with £7,000 a year from his investments, and a carpenter past work whose savings have allowed him to buy an annuity of £70 a year, though both live by interest; and between the judge and the woman who cleans out his court of law, though both receive wages from the Government.

Let us carefully remember that this great division between classes is a characteristic of fully civilised societies. Quite different are the conditions in the semi-civilised society known

as an "heroic age," whether Greek, Germanic, Old English, French, or Scandinavian; where, though in a sense aristocratic, there is no insuperable difference between gentle and simple; but in occupations and modes of thought all move in the same sphere. The leisure in an old Greek and an old Danish king's house, in spite of difference of climate, was filled up in a manner much alike, with feast enlivened by competitive boasting, story-telling, and minstrelsy; the fighting was a series of personal encounters, without skilled combinations; and though some political organisation or national consciousness is seen, there is not enough to hinder individual talent and achievement. But as societies grow more complex, conventional, and sophisticated, the relations between a great man and his followers cease to be thus intimate, and formality and separation intervene, though the old intimacy may reappear incidentally, as in the case of a gentleman adventurer on board his own ship. (See W. P. Ker, *Epic and Romance*, 1897, pp. 7, seq.)

§ 3. **The Limitations to the Inequality of Incomes.**—Our first business is to explain how it is possible that the incomes of different families can thus be so different in amount, one from the other; for if we are to justify such differences, we must understand them. Now a certain difference is quite simple, and would be seen if each family supported itself solely by its own labour from its own property. Greater skill, greater industry, better soil and climate, better tools and implements, or more scope by living in joint families for production on a large scale, may all make much difference. But there are limits to the increase of wealth due to such advantages. None desire more arable land than they can plough, more pasture land than enough for their cattle, more cattle than they can tend, more capital, in a word, than they can work. For it would be useless to them in the case we are supposing, where every family works for itself. In

the objects of enjoyment there are limits to increase of wealth analogous to those in the means of production. For many changes of clothes, elaborate banquets, large and well-furnished houses, well-kept pleasure-gardens, hunters and hounds, all require much time and trouble; and being without servants this time and trouble has to be their own. Some great change therefore in social relations is required before there can be such a thing as a rich family, or even a middle class family with four or five hundred pounds a year.

Nor is this great change to be found in the division of labour, which in itself does not alter the case or affect relative wealth. For a family wholly devoted to working, for example, in leather or iron, can only utilise and thus only desires a limited stock of materials and tools, and can only supply and thus only desires a limited number of customers.

§ 4. **How these Limitations are removed by the Employment of a Serving Class.**—The great change is the introduction of a serving or dependent class, which makes rich men possible. For if a family can employ *servants*, that is, those who do not share in common like the members of the family in the results of their joint labour, but get less than the addition which their labour gives to the produce, it is plain that indefinitely more capital can be used by the family, because there are now more persons to work it; and as the labour of each servant yields a surplus, or he would not be employed, it is plain that if only there are servants enough, the members

of the family that employs them can live in leisure and abundance, with no industrial labour but that of superintendence, and perhaps even this delegated. To live thus indeed it is necessary not only that they be relieved in the process of production, but also helped in their enjoyment. They must have body servants, house servants, stable servants, garden servants, or their possessions will be of no use to them. For it is no use for a man, in Adam Smith's phrase, to grow rich "by employing a multitude of manufacturers," that is, workmen, unless he can employ not a multitude, but a certain number of "menial servants." This is obvious, and these can be called *non-industrial servants* and the others *industrial*.

§ 5. **Proportional Number of Masters and Servants.**—Although precision is impossible, a precise figure is convenient for the memory; and therefore let us reckon that in England in our own day a family to be rich requires the entire labour of a hundred other families: that to be in the middle class it requires a smaller number of industrial and non-industrial servants; but that unless it can command the entire labour of ten families it belongs to the poor class, not to the middle, and still less to the rich.

Observe that the number of industrial servants required to enable their employer to lead an easy life, varies according to the productivity of industry and the amount of wages; but that even where the cost of labour to the employer is lowest, the number must be large, much larger than that of the non-industrial servants. The number of these last is still more variable, being dependent on manners and customs, on the climate, and on the kinds of recreation. Great heat and

great cold require more precautions and mitigations, and thus more servants to manage these than in temperate climates. Some sports need no assistance, others require grooms, huntsmen, beaters or guides; in some societies a gentleman or a lady must be accompanied by a retinue, in others they can go alone. It follows that we must distinguish times and places before we try to reckon the total number of industrial and non-industrial servants required by each rich family; and even then we must not hope for great precision.

The particular figures suggested above for England may indeed be wrong; but undoubtedly the following general propositions are right, that each rich family presupposes a number of poor families, and the richer it is the greater that number; that a society may be imagined of all poor, but that a society of all rich or all middle class is an impossibility; that the richer class must from the nature of the case be the few, and the poorer class the many.

Taking the number kept of non-industrial servants as a rough test of riches, Mr. Charles Booth, in Vol. V. of his *London*, divides the population into 80·1 per cent. who keep no [non-industrial] servants, 11·3 per cent. who keep servants, 4·9 per cent. who are servants, and 3·7 per cent. who are inmates of institutions. Nearly half the cases of [non-industrial] servant-keeping show one servant waiting on four or more persons; and less than a tenth of the cases show the servants about equal or more numerous than the persons served. So even in the great residential centre of the rich, barely one family in a hundred has on this computation even moderate riches; and the statement of Adam Smith is confirmed: "Wherever there is great property there is great inequality. For one very rich man, there must be at least five hundred poor, and the affluence of the few supposes the indigence of the many." (Bk. V. ch. i. Pt. II.)

§ 6. **Further Explanations.**—The *names* in different countries, times, and languages, by which the essential distinction of classes according to riches or poverty, are expressed, form an interesting and instructive study both historical and linguistic. Sometimes the name for the rich implies praise, and for the poor, blame. In English the phrases common people and

labouring poor have gone out of use, and the words servant and service have shruuk up to be merely equivalent to domestic servant or domestic service, while the industrial servants are called the working classes, operatives, or men. But the importance of words must not be exaggerated; a term of honour can become a term of reproach, and conversely; nor do many people know or care anything about etymology. The great thing is to understand the necessary conditions of society and the real relations among men; and the words most suitable for economic science seem to be such words as masters and servants, rich and poor, richer, middle, and poorer classes.

Two points may confuse the student. First, the servants may not work exclusively for one master, but for many. This makes, however, no difference in the result, it being the same to the income of, say, ten masters, whether a hundred industrial servants work for each of them separately, or whether a thousand work for them jointly, and each master be entitled to a tenth of the labour of each servant.

Secondly, the servants may live far away, perhaps even in another country, from the masters, to whom their names and very existence may be unknown; but as long as they are living and working somewhere, it does not matter where; the result is the same for the master's income. Thus in fact many rich people in England and France are virtually, though not visibly and nominally, the masters of industrial servants in Bengal, Tonquin, Egypt, Guiana, South Africa, and many other places; and the excess of imports over exports in England and France (*supra*, Bk. II. ch. v. §§ 7, 8) is the indication that the masters live in these two countries and the servants in the others.

§ 7. **Theory of Surplus Product or Unearned Income.**—The relation of master and servant must be well understood if we are to understand the significance of accumulated property in civilised countries. For such property implies rights not only over things but also over persons.

But these rights would be an idle name unless conferring an advantage on the holder; whence it is obvious, as already stated, that the person over whom the property-owner has rights, must yield if he be an industrial servant, a surplus product,

and that this surplus constitutes for the master an unearned income. *Sic vos non vobis mellificatis apes.*

This truism, which in our own time seems to have a sound of socialism and revolution, was long a literary commonplace, and accepted by economists as a matter of course.

Thus Dr. Johnson could reject as a fantastic opinion that inequality should be abolished and none should domineer over another. "Mankind are happier in a state of inequality and subordination. . . Sir, all would be losers if all were to work for all: they would have no intellectual improvement. All intellectual improvement arises from leisure; all leisure arises from one working for another." (*Life*, II. 237, Edit. Napier.) Thus Gibbon in his majestic manner marked as obvious how "in each successive revolution the patient herd becomes the property of its new masters; and the salutary compact of food and labour is silently ratified by their mutual necessities." (*Decline and Fall*, ch. 38.) Again Göthe's wood-cutters in *Faust* say plainly: "But for us rude folk working in the land you fine folk would fail utterly for all your wits, and would freeze unless we sweated."

Adam Smith marks the distinction between the rude state of things where "the whole produce of labour belongs to the labourer," and the times after "the appropriation of land and the accumulation of stock," when the labourer has to share the produce with landlord and master. (Bk. I. chs. vi. and viii.) He even exaggerates the actual inequality in the statement, that, except in new colonies, "rent and profit eat up wages, and the two superior orders of people oppress the inferior one." (Bk. IV. ch. vii. Part II. *ad init.*) And previously (Bk. I. ch. viii.) discussing the question of real wages, and noticing that "servants, labourers, and workmen of different kinds make up the far greater part of every great

political society;" he declares it is but equity "that they who feed, clothe, and lodge the whole body of the people should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed, and lodged."

Some half-century before Adam Smith the same obvious distinction of those who have to work and those who live from the labour of others was set forth by Daguesseau, the French economist (C. Jannet, *Le Capital*, p. 455); and previously our own Petty explained the nature of the surplus yielded by the labourer, namely, his average product over and above what was required to replace capital and to furnish him with necessaries. This "natural and true rent of the land" described by Petty seems by no means a statement of differential gain or "economic rent" (though Marshall thinks so, p. 715); but much rather a statement of the nature of surplus product which rendered riches possible.

§ 8. **Modern Restatement of the Nature of Unearned Income.**—From what has been said it is plain that the notion of surplus product or unearned income is no new invention of modern socialism. But it has grown to new importance because it has been denied. For the economists having cut themselves off from the ethical and religious principles which had formerly been taken for granted, and by which alone accumulations of property, inequalities of condition, and unearned incomes could be justified, found a difficulty in meeting the attacks of the socialists upon riches, especially upon the various forms of interest; and during the nineteenth century have invented a number of theories intended to prove that after all interest is not unearned. These theories, as well as those of the socialists they are intended to confute, will be examined in ch. vii. Here let us rather

listen to the excellent restatement of the old theory by Dr. Menger, the arch-opponent of socialism and an unsuspected witness.

"Our present law of property, which centres in private possession, does not, in the first place, guarantee to the labourer the whole product of his labour. By assigning the existing objects of wealth, and especially the instruments of production, to individuals to use at their pleasure, our law of property invests such individuals with an ascendency, by virtue of which, without any labour of their own, they draw an unearned income which they can apply to the satisfaction of their wants. This income, for which the legally-favoured recipients return no personal equivalent to society, has been called rent (*Rente*) by the Saint-Simonians and the followers of Buchez and Rodbertus; by Thompson and Marx, surplus value (*Merhrwerth*). I intend to call it unearned income (*arbeitsloses Einkommen*). The legally recognised existence of unearned income proves in itself that our law of property does not even aim at obtaining for the labourer the whole product of his industry."

"The character of unearned income may be most clearly discerned in the case of rent for land and buildings and interests on loans, where the activity of the owner is confined to its collection from tenants and debtors. But even the landlord who farms his own land, and the capitalist who himself engages in industry or trade, still of necessity obtain unearned income in the forms of rent and profit respectively. The amount of this can be estimated in any particular case by merely subtracting from the entire returns of the undertaking the sum which the owner must expend to replace his own activity by a deputy." (*Right to the Whole Produce of Labour.* English Edit. by Professor Foxwell, 1899, pp. 2, 3. First German Edit. 1886.)

§ 9. **Causes of Enrichment and Impoverishment.**—Granted that the foregoing explanation of the nature of riches and poverty is true, and if understood it can hardly be denied, being little more than a collection of truisms, then we are confronted by two questions: one *historical*, how some people come to be servants and others masters;

the other *ethical*, whether such distinctions among mankind are lawful. Let us look at each.

The historical question allows no general answer, any more than the closely allied question in political science, how some people come to be rulers and other ruled. We can indeed say that the fortunate, or skilful, or strong, or self-denying, or crafty, or unscrupulous, or cruel, are likely to collect stores of food and means of production; and that the unfortunate, or feeble, or self-indulgent, idle, drunken and licentious, or easy-going and gentle, or kind, or simple, are likely to be without objects of enjoyment and means of production, and to be willing or compelled to work for others. But this proposition is so general that we cannot tell whether a particular rich man deserves honour or disgrace; nor whether, if we meet a particular case of poverty, we are to say, "poor fellow," or "serve him right:" we must first know the particular origins of the riches or of the poverty.

Hence we must carefully avoid two very common mistakes: (1) To say that the rich are, in the main, those who have been, themselves or their ancestors, industrious and self-denying; and the poor, those who have been idle and self-indulgent; for this view takes possible causes for the prevailing cause. (2) To say that the rich are, in the main, those who, themselves or their ancestors, have taken advantage of the distress and simplicity of others to enrich themselves; and the poor, those who have been their victims; for this view also takes possible causes for the prevailing cause. The first mistake is characteristic of unhistorical rationalism, partly ignorant of the frequent existence of popular culture (*supra*, pp. 46, 169), partly incapable of understanding it. Hence, in the eighteenth century, the scorn of Voltaire for *la canaille*, and of Walter Bagehot in the nineteenth century for "the lower orders of mankind." (*English Constitution*, passim.)

The second mistake is less blameworthy and inaccurate

than the first; and is the modern form of the ancient opinion quoted by St. Jerome: *Dives aut iniquus aut iniqui heres.* Still it is a mistake, and is to be avoided like the other. Both are satirised by Shakespeare:

> Well, whiles I am a beggar, I will rail,
> And say, There is no sin but to be rich;
> And being rich, my virtue then shall be,
> To say, There is no vice but beggary.
> (*King John*, II. 2.)

§ 10. **Particular Origins of Enrichment.**—The multitude of particular origins of riches and poverty belong to industrial biography and economic history. Here it is sufficient to give a rough and imperfect enumeration.

Men may grow rich (*a*) by the sword, returning home laden with booty, or installing themselves as lords over a conquered people who henceforward work for them, as the Franks did in Gaul, the Normans in England, the Spaniards in Mexico, the Dutch and English in South Africa. They may grow rich (*b*) by capturing slaves, whether in public warfare like the Romans in Macedonia, or in private warfare like that of the Arab slave-traders, or by kidnapping, or by contract; and the modern traffic in coolies and other natives for work on plantations is an analogous source of wealth. (*c*) A share in political power has been another fertile source, yielding many lucrative concessions, revenue-farming, army contracts, salaries, commissions, perquisites, bribes, and divers opportunities of peculation, of which in our own days we have seen striking examples in Italy, Turkey, and several States in North and South America. (*d*) Foreign trade when conducted with uncivilised peoples may give great returns and build up great fortunes like those of the rich merchants of the Hanse towns, of Venice, of Holland, and of England. (*e*) Inventions of all kinds, especially where there is already much wealth accumulated, may be the ground of great fortunes, whether splendid inventions like the Bessemer process for making steel, or moderately useful like Josiah Mason's improved steel pens, or trivial like that of making dolls' eyes, which nevertheless gave the inventor a fortune. (*f*) Differential gains of all kinds are a source of wealth, whether in the shape of rent from farms and business premises, or profit from sales, and whether due to the law of diminishing returns, or to mercantile skill, good luck, or other causes, of which we have spoken at

length in Bk. II. ch. iv. Again (*g*) monopolies, whether legal like those granted by Elizabeth and James I., or practical, like English breweries, insurance companies and banks, and American trusts. (*h*) Scarcities, notably building sites in fashionable quarters or watering-places, or where poor workpeople have to congregate to be near their work, are a conspicuous source of enrichment. (*j*) Again, the discovery of coal, iron, rock oil, or other minerals on their property by fortunate owners. (*k*) Successful gambling, if every kind of it be included, has been another source, and never so important as in our own days, when so many fortunes are due to "operating" upon the Stock Exchange. (*l*) Immense, though by no means necessarily unfair, charges for personal services may be another source. This presupposes a wealthy class already generated; but this being so, these charges may be a great means of transferring wealth and changing fortunes. For example, in ancient Egypt immense payments were made to pagan priests, whose wealth was founded on the belief in the necessity of an elaborate service of the dead; or in modern times in Western Europe and in America the heavy fees often paid to the legal and medical professions. (*m*) Fraud of all kinds in private life, notably in our own days adulteration, illicit commissions, and frauds of company promoters and other speculators. (See Bk. I. ch. iii. and Bk. II. ch. x.) (*n*) Extortion of all kinds in trade and in lending, such as the exorbitant retail prices described, Bk. II. ch. iii., and above all, the profits of usury (Bk. II. ch. xi.), the source of much of the ancient Roman fortunes and of no insignificant part of the fortunes of modern Europe.

§ 11. **Particular Origins of Impoverishment.**— The particular origins of people becoming poor, that is, passing from the richer and middle to the poorer class, are partly the converse of the above: being conquered, plundered, enslaved, cheated, entangled by usurers, ruined by some invention of others, and being the loser in gambling and speculation. But partly they imply no enrichment of others, and come from *calamities*, such as murrain, drought, flood, earthquake, hurricane, fire, blight, or such as illness, accident, insanity; or from

injuries such as being harassed with lawsuits, or involved in the bankruptcy of others; or from *mistakes* such as those of inefficient men of business or blundering farmers; or from *vices*, such as drunkenness, which is daily dragging down many of the English middle class into the ranks of the poor.

The particular origins of impoverishment are always sad to read; but many of the origins of enrichment, it is only too plain, are equally sad—not all indeed: self-denial and frugality, skill and honesty, hard work and deep thought, have often gained even in material goods their just reward. Still, on the whole, any study in detail of the origin of fortunes, unless we shut our eyes to the greater part of the facts, is a painful study. But after all, from the Christian point of view, the facts are just what we might have expected. For in the department of human action concerned with wealth, human nature is the same as in all other departments, fallen and prone to evil; and the history of the origin of private fortunes is an excellent commentary or object-lesson upon the teaching of Christian morality, which warns us of the dangers of the love of riches, which forbids us to overreach our neighbour in business, which imperatively bids us make restitution to those we have wronged, which imposes on Christian rulers the duty of restraining various evil forms of enrichment.

§ 12. **Important Doctrine of Prescription.**—Moreover, assuming for the moment the Christian view that inequality in human conditions, and the distinction of rich and poor, are both just and beneficial, an important practical conclusion follows. It is this, that always presupposing the Christian view to be right, then it is no argument against the rich to show the badness of particular origins of riches, not even if we prove a whole class of people to have inherited fortunes made by iniquities: we shall not have rendered socialism one jot more

acceptable to our reason, though much more imposing to our imagination. True indeed where the victims and the oppressors are still living, the law can in many cases enforce restitution. But in a short time any such attempt only strikes the innocent, and only adds a second injustice to the first. The doctrine of prescription in economics as well as in politics is essential to social welfare; time brings healing in the moral as well as in the physical order; and the children of those who have acquired riches and power in the very worst way may use them in the very best.

For example, we cannot now undo the work of the eighteenth century, when great riches were acquired through the negro slave-trade and through the ruthless oppression of the natives of India. From whom should we take the wealth? To whom should we pay it? What benefit, not to speak of justice, would result from the transfer? Nay, even the nefarious revenues that are being made this day from the traffic in spirits with the natives of Africa, flow into so many hands, and inflict injuries which though most dreadful are so indeterminate, that no restitution could be carried out by any law. The horrible traffic indeed should be stopped, just as the plundering of Hindustan years ago and the American slave-trade were stopped: but the riches must be left in the hands that have got them.

But after all, may we make the assumption that this distinction of rich and poor—this inequality, is lawful and just? This is the second question we had to answer, the ethical question as distinct from the historical; and the next chapter shall be devoted to answering it.

CHAPTER VI.

AN APOLOGIA FOR THE RICH.

§ 1. **Defence of Riches a Distinct Task from the Defence of Property.**—Let us make sure that there is no mistake about what is to be defended; for in these delicate matters we must take every precaution against confusion and misunderstanding. Let us repeat then from the last chapter that our task is to defend something much more than *simple rights of property*. Such simple rights are those of families or individuals to the exclusive use of determinate wealth, whether means of production or objects of enjoyment; and are comparatively easy to defend against either socialists or communists, as we shall see. Indeed, had they been the only rights of property, they would never have been attacked; and although they admit a certain amount of inequality, one family or individual through good fortune, industry, or frugality being better off than another, this inequality of income, as explained in the preceding chapter, is narrowly limited. Very different is what now we have to defend, namely, *complex rights of property*, implying much more than the simple conditions of peasant farmers or village artisans in antique semi-civilised communities. For

complex rights of property imply great inequalities of income, imply the existence of a serving class, imply the existence of rich people, imply the ownership of the surplus product by others than the producers, imply the legality of unearned income—all these phrases expressing different aspects of the same phenomenon.

When these complex rights of property have been both defended and limited, their only valid defence involving their strict limitation, then the few simple words can be said that are sufficient for the defence of simple rights of property.

§ 2. **The Four Arguments for Inequality: Industrial, Intellectual, Political, and Religious.**—Four principal arguments can be urged for serious inequalities of income:

I. *The industrial argument.* Although without inequality there can be a certain amount of industrial organisation and progress, the organisation can be but rudimentary, the progress but slow. For with men as they are, the eagerness to make a fortune and live in ease and abundance is a needful spur to concerted labour, elaborate production, improvements, and inventions. And though not in itself a high motive, it can be elevated by the eagerness being for the advancement and ease not of oneself, but of one's kindred; and grasping ambition may be transmuted into family affection. At any rate without this motive, progress in the arts of production would be less, industry less organized, and the field smaller for the law of increasing returns. Hence the increase of population, and the corres-

ponding subjugation of the earth, both needful for man's destiny and welfare, would be hindered.

II. *The intellectual argument.* Although without inequality there can be some small science and primitive art, this is not enough for the development of man's faculties. The serious study of any kind of science, whether philosophy, mathematics, the historical sciences or the physical; and also the development of beautiful literature, of music, painting, sculpture, architecture, and all the ornamental arts, require an upper class provided with leisure and servants; and therefore require inequality; and therefore inequality is necessary to man's welfare.

III. *The political argument.* Although without inequality there can be some political organisation, village communities, highland clans, small republics of peasant farmers (as once the Forest Cantons of Switzerland), it is impossible without accumulated riches and great inequality of incomes to attain any great development of political life; nor could any one exult in the possession of a noble fatherland, or the citizenship of a great empire. In truth, the mighty fabric of an imperial State is no mere aggregate of equal units, no mere association of equal partners, but is an organic unity, implying inequality of parts with diversity of functions, implying variety as the requisite of harmony, and subordination as the requisite of order.

IV. *The religious argument.* Although without inequality many virtues can be practised, yet a multitude of others require inequality for their existence, such as loyal service, reverence, obedience,

innumerable deeds of kindness, generosity, self-denial, and submission to the dispositions of Providence; all of them virtues of singular fitness for man on earth; where, as natural theology and ethics teach us, the immediate end of man is precisely the exercise of virtues.

§ 3. **The Arguments for Inequality strengthened by Christianity.**—The Christian religion by no means removes the natural law, but supports and perfects it. Thus the preceding arguments, based on the natural law, may be obscured by the ignorance of the unlearned or by the false reasoning of the learned; and require to be made clearer and stronger, as they certainly are, by the Christian teaching on man's nature, origin, and destiny. Christianity, moreover, adds to them its own peculiar doctrines on the dignity and blessings of poverty, doctrines put into practice during nineteen centuries and illustrated with many beautiful examples (see any work on hagiography). Observe in particular how the Christian Church, by laying immense stress on the *brotherhood* of all men, coloured and white, European and Oriental, rude and cultured, rich and poor, and on their *equality* in a quantity of most important matters, all with the same human nature, called to the same high destiny, given the same religious teaching, bound to follow the same rule of life, partakers of the same religious mysteries—equality therefore in matters which Christians are taught to regard as of far greater importance than wealth or power, makes inequalities of wealth and power a minor matter. (See the excellent work, in Latin, of the Belgian Father F. X. Godts, *Scopuli vitandi*, ch. xiv.)

No doubt the argument from religion in general and from Christianity in particular can be abused; the duties of obedience and contentment may be shouted in all ears; the duties of justice and restitution scarcely whispered in secret; and just as the State has been looked on as a mere constable to guard the rich, so the sanctions of religion have been looked on as a supplementary police force. But the abuse of an argument, especially an insincere and hypocritical abuse, does not take away its use.

§ 4. **How the Arguments for Inequality modify the Doctrine of Unearned Income.**—If the four

arguments for inequality are valid, it is clear that the poorer inhabitants of a civilised country ought to gain great advantages and the use of many personal and material goods that never could have been theirs had all incomes remained much on a level. Hence if the serving and hard-working classes receive but little benefit from civilisation, the fault is not with the fact of inequality, but with its abuse.

And as a further consequence, although it is true, as explained in the preceeding chapter, that the existence of the rich implies "surplus product" on the part of the poor and that all interest and much profit is "unearned income," this is not the whole truth, and to say no more would be to mislead. There must be a surplus indeed, or there could be no rich people; and in this sense the poor support the rich. But precisely the prospect of being a recipient of the surplus is the ground of much of the industrial energy, skill, and proficiency which renders a surplus possible; not to speak of the fact that much of the surplus may be devoted to the welfare of the poorer classes. Hence, although it is quite true that the rich could not exist without the poor, it is also true, assuming humane and reasonable laws of service and ownership, that the poor would be worse off without the rich.

Hence again, always assuming a humane and reasonable Government, the income of the rich may be said in a sense to be really earned; not in the sense that every individual rich man separately considered earns his rents, his dividends, and his

interest; but that the richer class of society taken as a whole, are organs fulfilling various useful and necessary functions in the great organic body which we call the civilised State.

But still, as we are so often rather the slaves than the masters of words, it seems best to avoid saying either that the rich in general earn their income, or that the rich in general enjoy unearned income. Both statements can be understood in a true sense, but both also can be misunderstood. Hence the term unearned income which we have been using provisionally, can now be dismissed, as sounding a note of disapproval; and the justification of riches can be better expressed as the justification of interest being received and of incomes being unequal.

§ 5. **How the Arguments for Inequality make Riches and Responsibility Inseparable.**—These arguments cut like a two-edged sword; and while they force us to modify and even to withdraw such phrases as the appropriation of the surplus product of labour and the enjoyment of unearned income; while they make grave inequalities of income appear just and reasonable: they do something more. For the very reasons whereby inequality is justified, confine it within definite limits, engraft many duties of property upon rights of property, and link riches and responsibility with an inseparable bond. In proportion as a man grows richer he gains, *ex vi termini*, more control over others and incurs liabilities towards them. The particular liabilities depend on the circumstances of the country at the particular

time, and can be determined with reasonable accuracy, as well as the question, which are to be enforced by law, and which left to the internal forum of conscience. Some particular applications will be considered later; here only a general outline need be drawn of the duties of owners applicable to all civilised societies and giving us a criterion to judge all the historical relations of rich and poor.

§ 6. **Four Heads of Duties of the Rich.**— First, within the limits of possibility, the decent physical existence of all those of the poorer or serving class who work on any property or for any master, should be reckoned a first charge on that property or on that master's income. There must be food and clothing for them, housing and furniture, at least such as a humane slave-owner would provide for his slaves.

Secondly, a proper family life must be secured to the poor. This means that there be a practical possibility of marriage for all, separate homes, parental authority, union of family as far as possible in the same place of work, and the double security of being undisturbed in their dwelling-place and in their trade. Hence by some method or other each family must be insured, not indeed against all calamities, for this is impossible, but against the obvious and likely risks of sickness, old age, and industrial accidents.

Thirdly, some portion of the culture which inequality renders possible ought to flow back to the poorer classes of society: the beauties of literature and art in some measure be made acces-

sible to them; opportunity given to those among them of exceptional ability to penetrate the mysteries of learning; some participation granted in political life, especially in local government. Else the very advance from rude to civilised conditions means no advance in culture for the multitude, but retrogression, the vast development of intellectual and political life being concentrated among the few, while the many become brutalised.

This has happened more than once, but need not have happened. For the division of classes according to wealth need not be walls of social separation, but all classes may associate together to their mutual profit, chiefly and primarily in the exercises of religion, but also in local government, in industrial associations, and in rural sports, and a healthy union of classes accompany the greatest diversities of wealth.

Fourthly, the rich and the poor should be linked together by the works of charity, and almsgiving be abundant in proportion to inequality.

The conditions of man's life, more especially the elaborate life of civilised man, must ever give abundant fields for charity to meet the calamities which the best of Governments cannot prevent, and against which no insurance is possible. The unhappy victims of the vice or folly or weakness of others, and the unhappier victims of their own weakness or folly or even vice, need the helping hand of Christian charity. Even where no one is to blame there may arise unforeseen and grievous distress, and Christian almsgiving where it is vigorous, as in fifteenth-century England, does more than merely alleviate calamities; for it lessens the inequality of income by a sort of endowment of the poor, such as burses for poor scholars, dowries for poor girls, almshouses, and hospitals. (Provisional materials for estimating this great patrimony of the English poor in old days can be found in Dr. Gasquet's works, especially his *English Monasteries* and his *Eve of the Reformation.*)

§ 7. **Danger from the Neglect of these Duties.** —Of these four heads of duties incumbent on

owners of property, the two first can be enforced more or less directly by the civil power; whereas the performance of the two last can be facilitated rather than forced. And the neglect of these duties, and the consequent oppression of the poor, are liable to be followed by the Nemesis of communism or socialism; whose ranks may contain indeed all the discontented, the envious, and those who have failed in their professions; but also a number of generous spirits whom the wrongs of the poor and the misdeeds of the rich have stung with indignation.

Let us beware of the fallacy that a man may do what he likes with his own. For if by "his own" is meant what he may do as he likes with, the statement is an audacious, though not uncommon, *petitio principii*. If by "his own" is meant so much of his property as he can use for his immediate personal wants, and utilise by his own personal labour, the statement is only true with a number of limitations, and is grossly misleading by assigning to the word "own" so narrow and so unusual a meaning. Finally, if by "his own" is meant, as it usually does mean, the whole property of a rich man, the statement is false, inasmuch as the only justification of such ownership implies that the use of it be not arbitrary, but limited. For the rich man holds his riches on trust, and must fulfil the duties of trusteeship.

Another fallacy is to call socialistic or communistic any State action or legislation intended to facilitate or enforce the performance of their duties by the rich. This is like denouncing sanitary regulations as the spreading of disease.

§ 8. **Fair Treatment of the Poorer Classes.**— Wherever the offices of a rich class and of a middle class (to whom what has been said of the rich can in due measure be applied) are rightly fulfilled, we can say that the poor receive *fair treatment*. This fairness may take different forms according to

circumstances, such as paying fair wages to hired workmen, asking only fair rents from poor tenants, making only fair profits in our trade with poor dealers, that is to say, paying them fair prices. But if we recall what has been said on the four heads of duties of the richer classes, we see that fair treatment cannot possibly be reduced to paying or receiving a proper quantity of pounds, shillings, and pence. There are no figures yet invented that will enable us to quote the price of domestic order, reverence, peace, and affection; of the joyful sports of children; of friendly social relations; of good morals and of the worship of God. It follows that if a definite payment is brought before us, say of wages to the workpeople in a cotton mill, it is not a simple but a complicated question to decide whether wages are fair.

For example, in two adjacent mills turning out the same quantity and quality of cloth, the average wages for all ages and both sexes might be 18*s.* a week in the one and 20*s.* in the other, and yet the wages be fair in the first case and not fair in the second; and for the following reasons: In the first mill by the care of the owner the workmen are organised into guilds and insured against accident, illness, and old age; decent homes are provided for each family at a reasonable charge, and in other ways home life is protected, no exorbitant wages given to lads and girls making them independent of their parents, but each family treated as a unit, and regard paid to its special requirements; also innocent recreations provided for all, and proper industrial training for the children of the workmen; and nothing against good morals permitted within the walls. But in the second mill no such care is paid to particular wants, no such good things provided; and thus, if a head of a household working there is really to bring up his family decently according to his station, his wages ought to be higher than those paid in the first mill, not merely by ten per cent. but rather by fifty or a hundred per cent.; and even this would not suffice; for no extra

wages can make up for want of protection to home life and to good morals. So even if we could call his wages fair, his treatment would be unfair.

And the same principle can, with a little thinking, be applied to all kinds of poor servants and tenants. If only the four heads of duties of the rich are fulfilled, then whatever the serving classes receive in the shape of wages or prices, and whatever they pay in the shape of rents or interest, will presumably be fair.

§ 9. **Note on Fair Wages.**—Some difficulties require attention. Thus it is claimed that fair wages, often called *a living wage*, must suffice to enable the workman to live a decent life according to his station; in other words, must supply both absolute and conventional necessaries for himself and his family. It is also claimed that wages must be in correspondence with the amount of the labour; and also with the amount of the product. But then it may be objected that amount of labour and amount of product do not vary together; they have no fixed relation to one another, still less to the decent subsistence of the workmen, and that a payment acknowledged as fair if reckoned on one of these principles, might appear unfair if reckoned on another. Besides, of much work there is no visible product, and of much more it is impossible in the elaborately organised industry of civilisation to tell how much of the product, in which thousands have co-operated, is due to the individual workman: "We cannot say what he has equitably earned." (Foxwell, Preface to Menger's *Right to the Whole Produce of Labour*, p. cvi.) And if a decent subsistence seems a clearer criterion for fair wages, it leads to the absurdity that the larger a man's family and the weaker his constitution, the higher must be his wages. So the notion of fairness appears foolishness; and "all doctrine founded on equity alone irresistibly gravitates towards pure communism." (*Ibid.* p. cvii.)

In reality there is no theoretical contradiction between fair wages reckoned according to needs, according to labour, and according to product; in other words, according to the keeping up of an efficient working class; according to the expenditure of living forces by the workmen; and according to the productiveness of this expenditure. Nor is there any

practical difficulty, assuming good sense and good-will, in applying this **triple criterion** to concrete cases. For although the amount of product attributable to a particular workman is often unascertainable, the total product of any industry is ascertainable, and is mainly attributable to the workmen in that industry. And precisely this total, unless there is something wrong, must provide the workmen as a whole with a decent subsistence, which includes provision for an ordinary family. If the total is persistently insufficient for this purpose, then either production is being misdirected and men working uselessly at what is not wanted, or else by some injustice their produce is being sold below a fair price. But then, on the other hand, the total produce of an industry, carried on with the average skill and exertion of the locality, is seldom able to provide the workmen with more than a decent subsistence, any surplus over being required (as explained in detail in this and the preceding chapter) for the maintenance of a civilised State. If the total is persistently more than sufficient for these purposes, then either the work must be under the favourable conditions of a new colony, or else by some combination the produce must be fetching a monopoly price.

Hence, if we take an industry as a whole, and look on it as an organ in the State that must suffer neither atrophy nor hypertrophy, fair wages come to the same thing whether reckoned according to product, or according to labour, or according to needs. And a humane and reasonable Government will foster fair wages by hindering unfair prices, and by making each industry corporatively responsible for its members, all being linked by mutual insurance.

Even where the Government, as in England, does so little for the enforcement of fair wages, the notion of fairness with its triple criterion, that theorists would make us believe to be contradictory and impracticable, is put in practice by both masters and workmen. "It may be taken as a general rule that, just as the employer who pays a time-wage, expects to get for his money a 'fair' amount of work, so the workman, who is employed on time-wage, objects to give in return for his day's wages, more than a 'fair day's work.'" (D. F. Schloss, *Industrial Remuneration*, 3rd Edit. p. 24.) "The different methods of paying for labour under the wage-system have, underlying their different characteristics, a common foundation, the several factors of time, output, exertion, and pay, being, in a more or less well-defined manner, present in the basis of the wage-contract in all its forms." (*Ibid.* p. 42.) And in what Mr. Schloss calls collective piece-wage, where the employer pays an agreed sum for so much work done by a group, and the sum is distributed among the members in the

proportions they judge equitable, the workpeople are able and willing to settle these proportions; though no one could exactly measure the output of each man. (*Ibid.* pp. 115—118.) And just the same thing has been done for centuries in the countless *artels* of Russia.

Our conclusion, then, is that the cry for a living wage is not sentimental and impracticable but reasonable. Professor Munro has even attempted a scientific definition of a living wage, as a "yearly wage sufficient to maintain the worker in the highest state of industrial efficiency and to afford him adequate leisure to discharge the duties of citizenship." (See *Economic Journal*, June, 1894, p. 365.) And the notion of a living wage is clear enough to have been made the basis of legislation: a minimum wage law was passed for Victoria in 1896, strengthened in 1900, and imitated in South Australia. Previously wages in New Zealand had been regulated by compulsory arbitration, imitated later in New South Wales and Western Australia. The Report of the Inspectors of Factories in 1902 in Victoria declared the system of minimum wages to have been applied to one industry after another, to have abolished the sweating dens of Melbourne, and its enforcement, with the exception of the Chinese, to have succeeded. See the articles in the *Economic Journal*, September and December, 1901, pp. 334, 557; September, 1902, p. 320; March and September, 1905, pp. 115, 361. Also S. and B. Webb, *Industrial Democracy*, Introd. to the 1902 edit., pp. xxvi.—l.

§ 10. **Wages and Strict Justice.**—A word in conclusion on a semi-theological controversy, whether according to strict (*i.e.*, *commutative*) justice an employer is bound to pay fair wages as described above. The simple and sound conclusion seems that in conditions like those of modern Europe and America he is not; and that all that he is bound habitually to pay is enough for the decent support of the particular individual whom he employs. To pay more, namely, the full living wage that would supply the wants of a normal family (*le salaire familial*), is not of obligation according to the justice which regards the relations of individuals, and whose violation binds to restitution. "Under the present economic condition employers may often be really forced to offer less [than a living wage]. In such cases half-a-loaf is better than no bread. If the hands can without injustice give their services for nothing, they can certainly give them for less than their just value; and if the employer cannot offer them means of sufficient livelihood, he is not therefore bound to doom them to still greater straits." (Rev. George Tyrrell, on Socialism and Catholicism, in *The Month*, March, 1897.) Is

there then no grave injustice in unfair wages? Nay, most grave: but attached in many cases not to individual employers, but to the social organism. The individual workman is part of this great organism; and the authorities of the State are bound by *distributive justice* (that regards the duties of the whole to the parts) to see that in some shape or other the individual workman receives enough not merely for his own decent subsistence, but also for that of his family; and likewise the whole society is bound by *legal justice* (that regards the duties of the parts to the whole) to do the same. In other words, the Government and the public, elected and electors, are bound to make such provision that fair wages can be paid and are paid.

The reader may consult the excellent article of Father Tyrrell, cited above; and the student who wishes under sound theological guidance to follow this delicate matter and much debated controversy more in detail, as well as the bearing on it of the Encyclical on the Condition of Workmen, will find what he wants in the Latin of Father F. X. Godts, *Scopuli vitandi*, ch. xxvi.; or in the French of Father C. Antoine, *Cours d'Economie Sociale*, ch. xix. (*du juste salaire*); or in the German of Father J. Biederlack, *Die Sociale Frage*, §§ 95—99.

CHAPTER VII.

MISTAKEN THEORIES ON RICHES.

§ 1. **General Character of the Argument.**— If the nature and true justification of riches have been made clear, we can estimate rightly both mistaken apologies and mistaken attacks.

First, indeed, although the apologia for the rich rests on the fundamental truths of natural theology and ethics, let me warn my readers not to accuse any writer of being irreligious because he fails to use the arguments of the preceding chapter, or because his own arguments seem logically to involve the denial of the natural law. For few men can see the drift and implication of all their arguments; few can escape the spirit and fashion of their time; and the exclusion of religion from ethics, and of ethics from economics have been so loudly proclaimed, that many excellent writers have been stunned into acquiescence. Hence by their theoretical disregard of the natural law, they seem to be assimilated to those who really and explicitly reject the very foundations of morality: when all the while nothing could be further than this from their belief and purpose. It is against arguments, not against persons, that the criticisms in this chapter are directed.

§ 2. **Theory of the Reward of Abstinence.**—Senior invented this phrase and this defence of riches, namely, that the owner of property forbears or abstains from using it for enjoyment, and allows it to be used for production; and for this sacrifice he is entitled to some reward. Hence the receipt of interest (including rents and dividends as explained above), and *a fortiori* the receipt of profits, are justified.

The element of truth in this view is a vague consciousness of the industrial argument for inequality given in the last chapter. But the view itself is untenable. For *first*, it is a *petitio principii*, assuming the private possession of an accumulation of means of production, when the lawfulness of this is precisely what is in dispute. *Secondly*, the alleged choice cannot be exercised in the case of the greater portion of the means of production: neither farm buildings, nor arable land, nor factories, nor machinery, nor raw material can in general and habitually be eaten, drunk, or played with; and so there is no abstinence to be rewarded. True, it is possible for a man in a commercial society to sell land and factories, and drink unlimited champagne out of the proceeds. But this is only possible because it is unusual, and implies that those who do it are few and far between; for if great numbers made the attempt they would fail to find buyers for their lands and factories. So it seems a feeble argument for the rich as a whole, that they do not exercise a choice which as a whole they cannot exercise. *Thirdly*, and chiefly, even where the means of production are of the nature of a cake that the owner can eat, and there is a real sacrifice of present enjoyment, a real abstinence from consumption, there is an ample reward given without any need of any interest or dividend. For the workers with heads or hands keep the property intact, ready for the owner to consume whenever convenient, when he gets infirm or sick, or when his children have grown up and can enjoy the property with him. The labourers, in fact, warehouse for him *gratis*, and moreover do what no warehouseman can do: keep his houses free from dilapidation, his clothing free from moth and mildew, his food ever fresh, his horses and hounds in perpetual good condition.

§ 3. **Theory of Discounting the Future.**—This is the theory of the Austrian Böhm-Bawerk. Goods in the future are

assumed to be less valuable than similar goods in the present, and the capitalist is supposed to accept future goods instead of present goods handed over to labourers, and in consequence to deduct a discount corresponding to the less value of the future goods. This discount then is the legitimate foundation of dividends and interest, which appear as a compensation for the sacrifice of what is more valuable for what is less valuable.

But this theory is liable both to the first and to the third objections to the reward of abstinence. To justify interest by discount, is to assume the point to be proved; and to assert universally the less value of goods in the future, is to be mistaken. Immense sums are paid annually for simple storage of goods; and a great part of the excess of retail over wholesale prices is precisely a fine for taking future goods instead of present goods. In reality, future goods according to the circumstances and their nature are sometimes more valuable than present goods, sometimes less. Out of countless examples take one from the New York market for "futures," November, 1892, the prices of four articles in the near future, two months ahead, and six months ahead being as follows:

	Coffee.	Wheat.	Lard.	Cotton.
For November -	15·95	76⅝	9·12	8.72
For January -	15·25	79¼	8·12	8·94
For May - -	14·85	84⅝	...	9·43

Thus two articles appear, truly enough, less valuable in the future; but then two others appear more valuable.

The ground of truth in this theory of discounting the future is that industry in general is productive; and that to give a man immediate possession of means of production is to do more for him than to give him the same means of production a year hence; for in the second case he receives a year's less produce than in the first. But this truth is no great discovery of our age; nor helps to justify one man's income being over ten thousand pounds, and another's under ten thousand pence.

§ 4. **Theory of the Reward for Waiting.**—This theory is closely akin to the two already criticised, and is a sort of combination and restatement of them. "Waiting" is supposed to be a factor of production, and to be rewarded by interest.

The ground of truth in this contention is that in all production there must be postponement of

immediate enjoyment: the rudest agriculture, the simplest life of a backwood settlement, the life of Robinson Crusoe himself, all imply the use of reason and some regard for the future, as distinct from the mere irrational gratification of present appetite. But to bracket "working and waiting" as two factors of production, to make capital the product of labour and waiting, seems to confound conditions with causes. We might, on the same principle, put in a claim for sleeping as a third factor; and as a fourth the abstinence of enemies from making hostile interruption. And why should a man be rewarded for postponing enjoyments when it is obviously to his advantage to postpone them? As well claim a reward for not eating our dinner at breakfast-time.

But the main objection to this justification of riches is that the nature of riches is misconceived, and complex rights of property confounded with simple. To show that a peasant ought to be rewarded for postponing his enjoyment, and in consequence, to enjoy a weatherproof hut while his more impulsive neighbours are shivering, is one thing: to make him lord and master of other people's labour is another thing. Professor Marshall indeed says: "The 'demand price' of accumulation, that is, the future pleasure which his surroundings enable a person to obtain by working and waiting for the future, takes many forms: but the substance is always the same." (*Principles of Economics*, p. 313.) But if this is all our defence against socialism, we are lost. For very far from the substance being

the same, there is the essential difference between commanding one's own labour and commanding the labour of others; the essential difference between equality and mastership; the essential difference between the limited inequality of income among co-ordinate peasant families and the unlimited inequality of income where a serving class can be employed.

This argument therefore, like the two preceding, ignores the profound distinction of master and servant, and so misses the real point at issue and the difficulty that so loudly calls for an answer.

§ 5. **Theory of the Reward of Service.**—In its crude form this theory confounds capital with capitalist. Rents, dividends, and interest appear as the reward due to capital for the services it renders in production. But only persons, not things, can have any title to any reward; and no sane man would reward the material instruments of production, and give his plough a shilling a day, or a share of the produce to his shuttle.

But this absurdity is not involved in the theory as set forth in various forms by Austrian and American writers, notably by von Wieser, *Natural Value*, Bk. III. Part I., who rejects fair wages, under the title of "moral imputation," and works out an abstract and inapplicable theory of "natural imputation." Dr. Smart may be taken as an English example of the same school, and his theory must be examined more closely. "It must of course be granted," he says, "that outside of the income which falls to labour as labour, the idea of *personal* desert as the standard of distribution must be given up. It is always the factor of production that is paid for its services, whether it be a human or a "dead" factor, and the payment goes to the recognised owner of this factor." (*Distribution of Income*, p. 106.)

This theory however and the phrase "production by proxy" (p. 105) fail to answer the question before us; all notion of fairness, whether of prices, profits, interest, or wages, being abandoned; and all reduced to the brutal issue of the struggle for self-interest, the victor becoming the "recognised owner" of the means of production. Indeed, Dr. Smart, in

an unfortunate passage, says: "To him [the employer] a man is valuable only as a means to an end. Wage accordingly is a 'cost,' to be treated as all other costs are. In short, labour with him is a factor to be combined as he sees to be most advantageous, and to be bought as cheaply as possible." (*Ibid.* p. 147.)

Now such a theory can only be made plausible, and could only have been admitted by Dr. Smart, on the two grounds that it cannot be helped and is not so bad after all. Thus he says that "if indeed we demand payment according to personal desert, we cannot have it without overturning our present system." (p. 331.) In reality, as the previous chapter will have shown us, there is no such terrible alternative; reform is not revolution, and fair wages, within reasonable limits, can be ascertained and enforced. (See especially note on fair wages.) Nor is the second ground for Dr. Smart's theory more solid than the first. He holds that in our modern system of distribution there emerges "a kind of justice," and roughly "most men earn just about what they are worth." "At least it is not a distribution to idlers; nor a distribution by force or fraud; nor a distribution due to favour of the distributers, or to patronage or to privilege. It is in some sense a distribution according to product and is based on mutual service." (*Ibid.* pp. 187, 325.) And it is such, because by the mobility of labour and of capital, arbitrary payments are eliminated, and both wages and profits are regulated by competition. The result then is not a bad distribution after all.

But this is a revival of Bastiat's theory, long ago confuted by Cairnes (*Essays in Political Economy*, 1873, ch. ix.), which reduced all distribution to a beneficent exchange of services. The absence of combination, whether among masters and men, the absence of monopolies, practical or legal, the absence of one-sided competition, the absence of fraud and dishonesty, the general equality of profits and of wages—in short, a world wholly different from the actual and historical world is required to render Dr. Smart's theory valid; and even then, though it might justify profits, it could hardly justify rents, dividends, and interest, or prevent those who lived from them being called idlers.

Probably this singular optimism is due to observing one portion only of the facts, namely, the highly paid organised workmen of Great Britain and the immense British national dividend, instead of observing the far more numerous workers, unorganised and miserably paid, especially in the dependencies subject to Great Britain or in her economic tributaries. But whatever the cause of optimism, nothing can be worse than its effects on the argument against socialism. For we

appear unable to face the facts, and compelled for lack of any valid defence of riches, to resort to misrepresentation. Every instance, and they are innumerable, of "imperfect mobility," every instance, and they are numerous, of iniquitous enrichment, every instance, and these too are numerous, of unmerited impoverishment, appear as witnesses in favour of socialism.

§ 6. **Theory of the Reward of Ability or Mental Labour.**—Riches according to this theory appear as the reward of the higher kinds of labour, the labour of thought, invention, and direction, to which, it is contended, the greater part of the product is really due. And not merely are the profits of the entrepreneur justified, but also the income of the *rentier*, which is the reward of *congealed ability*, the hope of such an income being needed as a stimulus to the exercise of ability.

This theory, of which the Duke of Argyll and Mr. Mallock are the popular exponents, has its ground in the industrial argument for inequality given above. But the argument is exaggerated and distorted: the functions of the entrepreneur made ten-fold too important, the stimulus from the hope of rents, dividends, and interest made ten-fold too great, and above all, the actual facts of enrichment and impoverishment totally misrepresented. The two kinds of "business ability" have been described in Bk. I. ch. v.: this theory supposes the good kind to be universal and ignores the dishonest, cruel, crafty and unscrupulous kind of ability, and indeed any kind of mischievous or iniquitous enrichment. Such misrepresentation condemns itself, and only a word need be added on the assumption that the rewards for useful invention go habitually to the inventor. In reality "many business men whose inventions have been in the long run of almost priceless value to the world, have earned even less by their discoveries than Milton by his *Paradise Lost*." (Marshall, *Principles*, p. 680.) And "the great mass of intelligent workers have no opportunity of securing an adequate reward for any special application of intelligence in mechanical invention or other improvement of industrial arts. Few great modern inventors have made money out of their inventions. On the other hand, the entrepreneur, with just enough business cunning to recognise the market value of an improvement, reaps a material reward . . . often enormously in excess of what is . . . required to induce him to apply his "business" qualities to the undertaking." (Hobson, *Evolution of Modern Capitalism*, p. 363.)

§ 7. **Legalistic Theory.**—The Austrian economist Menger, whom we have already cited as setting

forth with great clearness the theory of unearned income, gives as the one defence of such income that it has the sanction of the law. "The right to the whole produce of labour is simply incompatible with our present society, which in the greater part of Europe recognises [accumulated or complex] private property in land and capital." (*Right to the Whole Produce of Labour*, p. 173.) "The owner's title to unearned income is founded, not in economic conditions, but in a positive legal enactment, and it is peculiarly important in the case of such property that his title should be supported by corresponding effectual power." (*Ibid.* p. 127.)

The ground of truth in this theory is that we have on our side the *consensus humani generis* that rents and interest are pre-requisites of civilisation ; and that socialism is essentially unhistorical. But then Dr. Menger misses the point that if we really grasp the nature of organic society, and also the inseparable character of riches and responsibility, rents and interest no longer appear a simple appropriation of the product of another's labour, but to be quite compatible with the workman receiving a reward adequate to his work. And then the apology, weak in itself, is further weakened by the author confusing reform and revolution, and holding up social reformers and revolutionists to indiscriminate scorn. In this he is quite in another class from his editor, Professor Foxwell, who urges the need of a humane interposition of Government, and concludes his introduction to the English translation of Menger's work with the admirable

citation: "Proudhon has declared that Property is Theft. It is for a wise Government to see that Theft shall not be Property."

§ 8. **Cynical Theories.**—The legalistic theory is likely to degenerate into the simple and intelligible theory of brute force—the theory expounded by Thrasymachus in Plato's *Republic* that justice is the interest of the stronger.

Still worse is the pagan theory expressed in the words *paucis vivit humanum genus*, and which presents the intellectual argument for inequality in horrible caricature; the mass of men being regarded as mere instruments for the culture and development of the few—mere underling creatures (*Untermenschen*) existing for the sake of a few superior beings (*Uebermenschen*). This theory, the very antithesis to Christianity, is dear to cultured rationalism. So in the eighteenth century the masses were in Voltaire's eyes *la canaille;* and in the nineteenth century Renan could write: "The bulk of humanity lives by proxy, . . . millions live and die in order to produce a rare *élite*, . . . the masses do not count, are a mere bulk of raw material, out of which, drop by drop, the essence is extracted." (*Life of Renan*, by Darmesteter, pp. 116, 198.)

Let us now turn from the various mistaken defences of inequality and riches to the mistaken attacks on them.

§ 9. **General Character of Socialism.**—The word socialism in the wide sense may be taken to cover all theories attacking riches as distinct from the abuse of riches; and thus includes

alike the extreme theories of communists and anarchists, the more elaborate theories of collectivists, and the milder theories such as land nationalisation and State socialism. The common principle underlying all such theories is that the evil in the world is mainly due to inequality of wealth or of opportunity; in other words, that the principal cause of vice, misery, and crime is the distinction of rich and poor. Thus all forms of socialism have a philosophical or rather theological doctrine as their foundation, which implies the denial of the Christian doctrine of original sin.

Two classes indeed would repudiate this statement, namely, socialists who profess Christianity and socialists who profess irreligion: but illogically. For the first class are in the untenable position of seeking to dry up the stream of misery by sealing up one only of its many fountains; and the second class are in the untenable position of claiming justice after they have destroyed its foundations, and left nothing but organised force.

§ 10. **Cautions on the Word Socialism.**—This word, in itself colourless, has been used in many and ever-changing senses, and is a term sometimes of reproach, sometimes of honour. The present writer in the first edition of this work endeavoured to confine the word to one doctrine, namely collectivism; but now that collectivism has somewhat lessened in importance and (in Germany especially) is changing in character, is becoming ethical and religious instead of atheistic and materialistic, it seems best to use socialism in the wide sense given above, and then to distinguish, as we shall do, the varieties of it. What is essential to prevent gross blunders is to define it before discussing it. Otherwise we may mix up social medicine with social poison, removal of the abuse of riches with removal of their use, reduction of excesses of inequality with reduction of all to a level.

Again, although any definition is better than none; still, it is misleading to describe as socialistic all measures tending to the improvement of the material position of the poorer classes, and to make socialism the principle that society should be so organised that contributions should be according to capacity, and the distribution of the common good should

be according to need: a man owing more the stronger he is, and receiving more the weaker he is; the issue being the prevailing advantage of the lower classes. For this is simply the social theory of the Christian Church, such as we can read in the Christian literature of the earliest ages or in these latest times in the Encyclicals of Leo XIII. And it is better to use the word Christian which is clear, than socialist which is obscure.

Hence when we hear that the Gospels or the Fathers or the mediæval Church taught socialism, or that the Catholic Church is a socialistic institution, the statement may be quite true, only very ill expressed. More likely, however, the statement is a blunder; passages of orthodox writers are taken apart from their context and are misunderstood to mean socialism in the sense of communism or collectivism; or else the passages taken are understood rightly enough, but represent the teaching not of the Church, but of unorthodox bodies, communistic or collectivist, of which there have been many, such as the later Ebionites, the Carpocratians of the second century, the Albigenses, the Fraticelli, the Lollards, and the Anabaptists. (For further details see an article on Christian Democracy in the *Dublin Review*, January, 1898, and on Socialism, *ibid.* October, 1906.)

§ 11. **Extreme Theories: Communism and Anarchism.**—The word communism well expresses the view that all property, or almost all, should be held in common. The means to reach this end may be voluntary effort and peaceful persuasion, like the schemes of Robert Owen, and of many others who have founded communistic societies in Europe and America; or the means may be the reckless violence of fanatics; but the end is much the same, the abolition of private property, and consequently, life more or less in common.

The words nihilist and anarchist imply the negation of all authority, and the cessation of all Governments; and though there can be communism without anarchism, the latter is the logical development of the principle, which alone can

make communism plausible, namely, that man is naturally good if only let alone, and his natural inclinations given free play: then mankind would be a happy family, every one doing as he liked. Again, although marriage, as we understand the word, is not incompatible with communism, community of wives is a congruous and not uncommon extension of it; and certainly Christian family life is incompatible with communism.

Such theories, in glaring contradiction with the nature and history of man, need no confutation: but they need explanation. They can be explained in part as a reaction against the abuse of riches, and the insolent luxury of individuals; and as a reaction against the waste of competition and misdirected consumption. So it is possible for a serious writer like Prince Kropotkin to reckon that by co-operative production and by joint consumption the saving of waste would be so great that manual labour need not exceed five hours a day or be required from any one over forty-five years old. Then partly these theories are due to the common mistake that what succeeds among a few people or on a small scale can be applied universally; and thus because community life is suitable for a few who are united by strong and similar views, it is rashly concluded that such life is suitable for all. Finally, certain systems of philosophy and religion, in their application to property and law, issue logically in anarchy and communism; which therefore have the negative but useful function of indicating that certain systems of philosophy and religion are false.

§ 12. **Elaborate Theories: Collectivism.**—The form of socialism most conspicuous in the second half of the nineteenth century has been collectivism, and its chief exponent, Karl Marx. The name of scientific socialism is sometimes applied to this form, and its general character is that while allowing a certain amount of private ownership, inheritance, and donations, these are confined to *objects of enjoy-*

ment, such as houses, furniture, books, pleasure-grounds, and adornments, while all *means of production* are to be owned and worked by the State, all industries reduced to branches of the public service, and all workers to be public servants paid or supported by the State. And by this collective system of production, orderly and scientific, the much waste and many injustices of the present individualistic and anarchical system of production will (it is hoped) be abolished, and the maximum of temporal welfare obtained.

The brilliancy of Karl Marx threw his predecessors into the shade; and in this as in much else, such as his cynical theory of history and his bitter scorn of religion, he is a parallel to Adam Smith. Indeed so marvellous were his industry, erudition, and talent, that there is some truth in the saying that socialism which before had been romantic and Utopian, became in his hands scientific and practical. No doubt in the earlier part of the ninteenth century the injustice of appropriating the surplus product of labour had been maintained by William Thompson and other socialists in England; and the benefit of collective ownership by the St. Simonians in France. But it was Marx who made these plausible doctrines appear irrefragable truths by showing how they were the issue of Ricardo's political economy and Hegel's philosophy; it was Marx who aroused enthusiasm by his lurid picture, sadly near the truth, of the iniquitous origin of much of modern wealth, the robbery by the rich of the peasantry in the British Isles and in Europe, the robbery or enslavement of non-European races, the awful realities of industrial oppression, the tortures of little children, the degradation of women, the deadly conditions of factory work, revealed in the pages of English blue-books. And the true causes of these evils being totally obscured by the "liberal" theories of economics and politics which prevailed in the sixties, the conclusion of Marx seemed obvious that the cause was the accumulation in private hands of the sources of income, and that the remedy was collectivism. The importance of Marx is shown by the number, prolixity, and violence of the attacks on him, especially on his theory of value as being a mere plagiarism from his predecessors, or

as not being logically the consequence of Ricardo's theory of value, or as being false. What he really meant by all value being due to labour or to congealed labour is not easy to ascertain and not necessary. For the root of collectivism is not the theory of Marx on value, but the obvious fact that riches mean servants working for masters; and the removal by false philosophy and by irreligion of the means of justifying that obvious fact.

§ 13. **The Answer to Collectivism.**—First let us dismiss the various invalid defences of rent and interest, such as the reward of abstinence, discounting the future, the reward of waiting, the reward of service, the reward of ability, the legalistic, and the cynical theories already described. And let us avoid the dangerous doctrine that in the complex industry of our times there can be no telling, even approximately, what is the product of individual labour, and that no such thing as a fair wage is therefore possible. For then comes the conclusion that it is for the State, as the active principle in the great social organism, to take the whole product of the organism, and then to distribute it according to the needs of the several parts, thus harmonising the apparent contradiction between the individual's right to the whole product of his labour and his right to subsistence.

Dismissing these idle arguments, we can briefly answer collectivism by applying the four arguments already given for inequality, the industrial, the intellectual, the political, and the religious.

First then, collectivism would be destructive to the very wealth it seeks to apportion fairly; destroying the springs of energy, industry, and

frugality, because there would be no fortune to be made, no position in life to be kept up, no insolvency to be avoided, above all, no family to be provided for, as the provident State would provide for the education and maintenance of the children. Secondly, by the common education and uniform leisure, or rather (as the result of the previous argument) uniform lack of leisure, there would be no intellectual improvement (to use the phrase of Dr. Johnson). Thirdly, on the same grounds there could be no great Empire, or well-organised State, only small communities possible; and even then a difficulty arises and anarchism appears more logical than collectivism. For if inequality of wealth between man and man or class and class is such an evil, why not also between nations? The Englishman earning 30*s.* a week while his Hindu brother is only earning 3*s.* is a contrast no less shocking than that between rich and poor; and the cry of equity on this principle can only be satisfied by an impossible world-State, in which English and American workers must share alike, not merely with French and Germans, not merely with Poles and Italians, but also with Kaffirs, Hindus, negroes, and Chinese. Fourthly, there is the religious argument that the practice of virtue, which is man's end, would be lessened by collectivism: an argument which does not lose its validity because many of the disputants have forfeited their claim to make use of it. In particular, the grand virtues of paternal care and filial piety would have no place for their exercise, and one of the chief fountains of

what is most amiable and admirable in life would be dried up.

Besides these four main arguments others can be adduced. It would be impossible, at least without great loss of productive power, to direct from one centre all the industry of a large country; but, then, if local management and local autonomy were allowed, inequalities of wealth would quickly arise between localities, and in one town or district the people would be able to work shorter hours and receive higher pay than in another. Again, as experience has shown, where wages are paid collectively to a small group, each workman encourages his neighbour to work energetically, that the joint earnings may be high; but this advantage rapidly lessens with the growing size of the group; and where a group is large and no effectual mutual supervision possible, and the share of each but a small fraction of the total earnings, collective payment encourages the idle and discourages the industrious. (See D. F. Schloss, *Industrial Remuneration*, ch. ix. 3rd Edit.) So the dilemma recurs of damaging productive power, or else of permitting inequality. Then again the difficulties of assigning to each person his proper function have often been urged and never satisfactorily answered (though ingenious attempts like those of Bellamy have been made); it being an evident and extreme waste of power for each to take his turn at different trades; or again for very short hours to be the rule for the more disagreeable trades. And any real liberty of moving from place to place and changing one's occupation would be so disturbing to the collective arrangement of industry as scarce to be tolerated.

This brings us to the objections not in regard to production, but in regard to consumption. In this there could be no real liberty: the mere clerk work required would render it impossible for any but mere ordinary needs to be satisfied; and the regime, even with the best dispositions on the part of the managers, must be that of a boarding-school or barracks. Moreover, we cannot allow the assumption that man in the socialist State would be any different from the historical man, or that the socialist bureaucracy would be other than actual bureaucracies. And this would mean the repression of all that gave trouble and was not according to routine, and the persecution of all that was not official teaching, official literature, official art, official philosophy, and official religion.

There is a further objection that deserves to be treated separately.

§ 14. **Collectivism Fatal to Simple Rights of Property.**—These rights, it will be remembered, are those of individuals or families to the exclusive use of such wealth, in particular to such means of production as they can themselves utilise without servants to help them. Communism does away with these rights of property altogether; collectivism with apparent moderation only prohibits simple property in the means of production. Nevertheless, this prohibition removes one of the main characteristics that distinguish rational man from irrational brutes, removes one of the main sources of industry and of joy for the bulk of mankind, allows none to call a plot of earth his own, and to mark it with his own personality, makes impossible the existence of the soundest and best part of the world's workers—the peasantry, and grievously damages the strength, unity, and continuity of family life.

The force of this argument is seen by the hostility of collectivists to peasant owners, to small farming, and to petty industry in general, by their failure to see the significance of the co-operative movement, and by their confident prophecies that all alike will be swallowed up by large-scale or colossal business. Hence it is argued that whatever advantage or justification in the past may have been attached to the private ownership of the means of production, such ownership is now an anachronism; and that collectivism is the form of ownership adapted to large-scale production.

This reasoning, however, has already been

answered by anticipation in Bk. I. ch. v., where evidence was given that ample fields for intermediate, for small-scale, and for miniature industry were to be expected; and it was also shown that large-scale production and large properties are not the same thing, witness the development of both joint stock companies and of co-operation, allowing one great enterprise to be owned by many small people. There has been a great technical change, requiring private ownership to be adapted accordingly, and public ownership extended. Collectivism is not wrong in seeing the need of change, but wrong in not seeing the limits to the change needed.

§ 15. **Milder Theories: Land Nationalisation.**— Under the head of socialism we can place various milder theories of change, as being all based on the same principle, that inequality is the great source of misery and crime. These theories are many, and ever varying in importance and popularity.

Fourierism described in Mill's *Political Economy* (Bk. II. ch. i. § 4) is one of these. Another is the illusion on co-operation described *supra*, p. 122. A third is the theory of land nationalisation, such as advocated by Henry George in the once famous book, *Progress and Poverty* (1st Edit. 1879), and summarised as *the appropriation of rent by taxation*. But besides other objections to this scheme, two are fatal: the glaring injustice of the State taking one kind only of differential gains, and leaving the others untouched; and, secondly, that as the amount of "economic rent" and the person who is really enjoying it are both as a rule unascertainable (*supra*, p. 283), this scheme would mean as a rule the taking nobody knows how much from nobody knows whom.

Mill's proposal, known as the interception by the State of *unearned increment*, would leave the past alone, but would have the State take all *future* "economic rent" that might arise. But the same objections apply, that to take, even in the future

only, one form of unearned increment, and leave other forms is unfair; and that to ascertain how much an increase of "rent" is due to the owner's improvements is in many cases impossible. Besides, if the State is to absorb all future unmerited increase of rents, it seems but equity that the State should give a guarantee against all future unmerited decrease, and that owners in decaying towns, deserted mining districts, and depopulated rural districts should have a claim for compensation.

Similar reasoning applies to proposals for the State to intercept all present or all future mining royalties.

§ 16. **State Socialism.**—This term is sometimes used not to express any principle, but only an unprincipled policy of opportunism; or else to express illogical half-measures as the result of incoherent principles. Sometimes, however, State socialism is applied to a more or less coherent principle known as *Fabian socialism*. Advocates of this form of socialism claim to be the genuine and scientific socialists and collectivists; and denounce the previously described collectivism as "catastrophic socialism." Their own distinctive mark (though indeed it was set forth as long ago as 1830 as part of the programme of St. Simonism) is to advocate a gradual change to the collective ownership of the means of production instead of a sudden or simultaneous change. A new system of society is slowly and by constitutional methods to be evolved out of the old. Hence, the difficulties urged above against collectivism are dismissed as applicable only to a sudden change, and not to the slow changes of social evolution.

But if we recall these difficulties, and especially the four main arguments and the destruction of simple property, we shall see that they are in

general applicable to the gradual as much as to the speedy introduction of collectivism, the only difference being that they would apply gradually instead of speedily. And to appeal to the unknown, even under the title of social evolution, is to put oneself out of court. We can only reason profitably about historical man; and to discuss the Fabian man of the future is no less waste of time than to discuss the economic man of Ricardo; and involves the additional contradiction that as soon as mankind were fit for collectivism it would be superfluous to them in their happy condition of righteousness.

§ 17. **How to distinguish State Socialism from Social Reform.**—A few words must be added lest we fall into confusion. For there are many who, rightly oppressed with a sense of the world's woe, of triumphant oppression, and iniquitous enrichment, are wrongly attracted by the doctrines of State socialism. These seem to offer them a scientific solution in contrast to Utopian dreams or revolutionary violence; all the more because a great part of the immediate measures proposed by Fabian socialists are just the same (or seem just the same) as what others propose on the ground of restoring the Christian character of society, uniting riches with responsibility, and insuring the fair treatment of the poorer classes. The question then arises, how are we to distinguish between the State socialism that we ought to repulse, and the humane and reasonable legislation that we ought to welcome.

The answer is, that we must look at motives, *εἰς τὴν προαίρεσιν* in Aristotle's phrase, at the "why"

rather than the "what;" and then confusion will disappear. If our aim is to prevent the abuse of riches, to enforce those duties of the rich that can reasonably be enforced, to lessen the excess of inequality, to multiply the owners of property, to extend collective ownership or management to the particular cases where it has become desirable, we are on the right track of social reform. But if our aim is to abolish riches, gradually indeed, but ultimately; and again, slowly indeed but surely to put all men on one level in starting life, and to place by piecemeal and peaceful legislation indeed, but still at last wholly to place all means of production in the hands of local or central Government: then we are State socialists. And thus although the particular measures advocated by a State socialist may be right, and he may work side by side with social reformers to carry them, he is right merely by a happy chance; and his principles being wrong, they will issue sooner or later in particular measures that are wrong.

As *an immediate and practical test*—and one is wanted, seeing that many say and think they are socialists where in reality they are sound social reformers—perhaps the best at present is a man's affection or aversion towards small owners and holders of property. If like many reformers in Australasia and America and many advocates of co-operation in Europe, he desires to create, increase, or strengthen a class of peasantry or yeomanry, his socialism is but nominal and innoxious; whereas hostility to small ownership is a sign that his socialism is to be labelled real and dangerous.

CHAPTER VIII.

LIBERTY AND LAW.

§ 1. **Classification of Social Relations.**—If we are to understand the confused multitude of economic relations, they must be arranged in some order in our minds. Let us simplify the arrangement by first setting *uncivilised societies* apart. These are either (*a*) pastoral or nomadic tribes, the basis of whose subsistence is the milk and flesh of domestic animals, such as oxen, sheep, camels, reindeer; or (*b*) hunting or fishing tribes, like the Esquimaux, who live by the capture of seals and whales; or (*c*) rude agricultural tribes, who are generally organised in complex joint families or village communities, with comparatively little accumulation of private property. In each case their similarity of means of subsistence causes similarity in some of their manners and customs: but only in some; while in material ease, in bodily development, in mental vigour, above all, in morals, family life, and religion, the greatest diversity has been observed; and to lump them all together is a great historical blunder.

Assuming civilisation, we can distinguish five principal forms of social relations, and for lack of

better terms call them *feudal*, *servile*, *unregulated*, *governmental*, and *corporative*. The first applies to cases where masters and servants are permanently bound to each other; the second, to where the servants are bound and the masters free; the third, to where neither associations nor laws interpose in regulating production, consumption, exchange, and distribution; the fourth, to where the local or central Government interpose to regulate them; the fifth, to where associations interpose to regulate them.

Of these five relations, as far as history tells us, the three last are always to be found in a civilised society: always some economic dealings left unregulated, and some regulated by public authority, and some regulated by associations. The question is not of their existence but of their predominance. But feudal and servile relations may be wholly absent, and in fact are absent in the greater part of Europe and America. Hence they can be briefly treated in the next section, and the rest of this chapter and all the next be devoted to the more pressing questions of how far, and in what matter, economic life should be regulated by public authorities or private associations.

§ 2. **Feudalism and Slavery.**—The two characteristic features of economic feudalism or *serfdom* are, first, that the servant, whether called helot, bondsman, villein, or serf, is bound *permanently* to serve his lord and master in some way or other by giving work or making payments; secondly, that the lord on his part is bound in some measure to these dependents, being able neither to dismiss

them at his pleasure, nor to destroy their family life. Otherwise they would not be serfs, but slaves; whereas, towards serfs the master is not free, and must afford them political and judicial protection, and, to use modern language, insurance against old age, accidents, and sickness.

History shows the greatest variety in the treatment of serfs. But compulsory service, even in its mildest forms, is not in complete accord with the Christian ideal of the dignity and brotherhood of man; and the manumission of serfs has been recommended by the Church as a meritorious work. Observe however that as a transition from slavery, or where a weaker race is conquered by a stronger, well-contrived serfdom may give better results than a nominal liberty and equality like that of the coloured population in the United States.

Slavery has sometimes preceded, sometimes followed serfdom, and has often been confused with it; but is really quite distinct. For the status of a slave is not that of a person with family relations, but that of a thing to be sold and used according to the wishes of the owner with few limitations. No doubt, in fact, the treatment of slaves has very often been softened by the natural feelings of compassion and kindness either of the master or of public opinion, or again by the precepts of religion; and sometimes the law, while leaving them slaves, has given them some protection. Hence we must not think that every slaveholder must be cruel, all slaves unhappy; nor again that all slave labour must be careless and unskilful: it was not so in Athens

under Pericles or in Rome under the Antonines. Still, slavery by its very nature encourages immorality, hinders proper family life among the slaves, gives the master an arbitrary power with which no man can be trusted, fosters the scorn of manual labour as a degradation for the freeman, and thus is always a social evil, any incidental advantages which it may give being attainable by serfdom.

Much information is to be found in two small volumes: *Slavery and Serfdom in Europe*, by Bishop W. Brownlow, 1892; and *History of Slavery and Serfdom*, by Dr. J. K. Ingram, 1895.

§ 3. **Meaning of an Unregulated Regime.**— Turning now to the three universal relations, unregulated, governmental, and corporative, let us hold fast to the golden mean, and to the principle that much of the welfare of a country depends on due proportion being kept between what is regulated by Government and what is not regulated, and again between the spheres of the individual and of combinations. And economic liberty or freedom will appear greatest, not where the interposition of Government or of associations are at the minimum, nor where they are at the maximum, but where they are seen in the most reasonable proportions.

Unregulated relations, as already said, cannot be universal; no civilised society could exist without the law interposing to check violence and fraud, to settle rights of ownership and rules of succession, and to enforce most contracts. But when unregulated relations are predominant, or at least very

conspicuous, and wages, prices, and the conditions of labour are in the main regulated neither by positive nor customary law, nor by associations, we call this an *unregulated regime.*

This is sometimes called a system of *laissez-faire.* But unregulated is a better word, because laissez-faire is often used to mean only the absence of regulation by Government, and does not exclude regulation by economic associations; so that the regulations (for example) of prices and production by the modern "trusts" in America would not be opposed to a laissez-faire system, but an exemplification of it.

To call an unregulated *regime*, like Adam Smith, the *system of natural liberty*, is an abuse of language; for it is not more natural than any other system; and the word liberty is both eulogistic and ambiguous.

The same criticism seems to apply to Professor Marshall's language in the first three chapters of his *Principles.* He affirms that the fundamental characteristic of modern industrial life is self-reliance, independence, deliberate choice and forethought; that to express this we need a term which implies no moral qualities, whether good or evil; and that, in the absence of a better term, *freedom of industry and enterprise*, or *economic freedom* can be used. But in the face of the prevalence of co-operation, and above all of combination in modern industry, he has to admit that there is a question "how far these deliberate forms of association are likely to destroy the freedom in which they had their origin." (p. 8.)

Such language is misleading both to writer and to readers. The two chapters describing the growth of "economic freedom," imply by their title the growth of something good; and the word "free," though used in them in various senses, is in all senses used as a term of praise. Indeed the student must be warned that the survey of economic history given in these chapters is derived in great part, like the "history" in Adam Smith and Mill, not from scientific sources but from imagination, and is quite unworthy of the author. No serious evidence is given that "self-reliance" and "forethought" have grown at all, and are more prevalent in modern industry than, for example, among the merchants of Babylonia or Phœnicia, or the contemporaries of Demosthenes or of Cicero, or among the vigorous business-men of Catalonia, Venice, the Hanse towns, Flanders, and Portugal, during the fourteenth and fifteenth centuries. The whole drift of the survey indeed, is to glorify the present, especially

the condition of modern England, and to blacken the past. We even find the antiquated calumny that the mediæval Church helped to keep the working classes as a body ignorant; and the sixteenth century, which witnessed in many parts of Europe the ruthless spoliation of the poorer classes and in many parts their reduction to an oppressive serfdom, is depicted as an age of increased freedom, while the great spoliation is totally passed by. A happy contrast to this unhistorical survey can be found in the small but excellent volume, *The Industrial History of England*, by H. de B. Gibbins, Sixth Edit. 1899.

§ 4. **Classical Example of an Unregulated Regime: England, 1800—1850.**—We have already seen how needful it is to distinguish the case of the mere existence of unregulated relations from the case of their predominance. It would be bad, indeed, were everything regulated, all running in grooves, no field for individual peculiarities and energies. Already we have amply shown the beneficial effect of a genuine market where prices are settled by free competition, notably the elimination of incompetent producers and the stimulus to division of labour. (Bk. II. ch. ii. § 10.) But to imagine that all industrial relations are of the character of buying and selling in a market, is one of the most portentous of the delusions of science; the practical results one of the most dreadful pages in history, and England in the first half of the nineteenth century the classical example.

Coming to particulars, the working classes employed in her vast coal-mines, woollen factories, and cotton factories during the reigns of George IV., William IV., and the early years of Victoria, suffered from the following evils:—

(A) Insufficient wages: the masters being desirous of reducing them to a minimum, and being able to do so because the Statute of Apprentices had been repealed, because the relative demand for labour had been lessened by the

introduction of machinery, and because the supply of labour had been increased by women and children being made into labourers, by the introduction of piece-work, and by the lengthening of the hours of labour.

(B) Over-work: when precisely by the change from easy-going petty rural workshops to the high pressure of the factory, the work had become much more exhausting, instead of work-time being shortened it was lengthened, generally to over twelve hours a day, sometimes to sixteen or more, and the workmen brought down to the level of driven oxen, without leisure for the least of the higher needs of man.

(C) Divers frauds and extortions: notably fines and confiscations of wages on all sorts of excuses, and the truck system whereby payments were made in orders on tradesmen who were in collusion with the masters, and who gave goods to the workmen worth less than the nominal money value of the orders.

(D) Utter insecurity for the future: liability at any time to arbitrary dismissal; likelihood of long periods of being unemployed at each period of slack trade; absence of any one to care for their welfare or be a guardian to their children. Occasional discord, indeed, between servants and masters has ever been and ever will be; but here it was habitual and a matter of course.

(E) Cruelty to children: horrible, incredible, unparalleled even in the history of pagan slavery, and not exceptional, such as in all social organisations must be expected as the occasional outbursts of corrupted nature; but general, normal, a matter of business and calculation. All of which can be duly seen in the sober pages of Parliamentary Reports, notably in the two celebrated Reports in 1842 and 1843 of the Children's Employment Commission, that aroused the tardy horror of England and Europe.

(F) Immorality: the worst evil of all, the mines and factories being dens of iniquity, and this corruption, as set forth or indicated in the same Reports, being not exceptional, but characteristic.

§ 5. **Restoration of Regulation.**—It is not surprising that among observing men who knew the real condition of the workpeople, a catastrophe was held to be at hand, a social revolution inevitable. "We are engulfed," said Dr. Arnold, ". . . and must inevitably go down the cataract." (Toynbee,

Industrial Revolution, p. 193.) And they were half right; for some change was inevitable: but they were wrong in thinking that the change must come by social war and not rather by social reform. What really happened was a gradual but continuous improvement in the condition of the factory and mining population during forty years, due to the growth of regulation, both by Government in the shape of factory laws, and by combinations in the shape of trade unions. Where indeed these reforming agencies were not applied, whether in town or country, the old evils flourished, witness the Reports of the second Children's Employment Commission in the seventh decade of the nineteenth century, and the evidence on the "sweating system" in the tenth.

The terms *sweating system* and sweated industries originally implied oppression of workmen by *sub-contractors*, whose interest was to force the men under them to utmost physical exertion. It is now often used in a wider sense, wherever there is not a direct hiring of workmen by large firms or companies; sometimes even to indicate any oppression of the industrial classes. This last use of terms seems best, because in itself a sub-contract need not be connected with over-driving or in any way oppressing the workpeople; and also there can be as much over-driving where the foreman's wages are made dependent (more or less) on the amount of work produced. There can be sub-contract without sweating, and sweating without sub-contract. See the evidence in D. F. Schloss' *Industrial Remuneration*, 3rd Edit. 1898, ch. xv.

But whatever the terms used, the facts remain, that in unregulated industries, where the Factory Acts are escaped or evaded and where trade unions are absent or weak, we see multitudes working inhuman hours with unremitting toil for wages seldom sufficient and often a mockery; working,

too, in horrible insanitary conditions, dwelling huddled together in miserable overcrowded rooms; uncertain, even under such hard conditions, of finding employment; and all this wretchedness in a land that for centuries no army has ravaged, in the very world's centre of accumulated wealth and commercial power, in the very seat of world-wide dominion.

See the judgment of the sober and close observer, Mr. D. F. Schloss, *Industrial Remuneration*, 1898, p. 211. The number of those living in these sad conditions has been reckoned at about one-fifth of the population by S. and B. Webb, *Industrial Democracy*, pp. 721, 722.

§ 6. **Factory Laws.**—The general title of *factory laws*, for want of a more comprehensive word like the German *Arbeiterschutzgesetzgebung*, expresses that department of legislation, which after feeble and ineffectual beginnings, grew to be really important and effective in Great Britain about the middle of the nineteenth century, and has spread to all civilised countries where production is carried on in large factories with elaborate machinery and steam power. In general, such legislation distinguishes all or some of the following six categories of workpeople: (1) children, (2) lads, (3) girls, (4) unmarried women, (5) married women, and (6) adult men; it applies to all work in mines, quarries, brickfields, large factories using mechanical power, and workshops other than those domestic ones where the family work in their own home; and its multiform enactments can be grouped under three heads as follows:

First, general sanitary and safety regulations

affecting all categories of workers, for example, compelling the provision of sufficient air, light, ventilation, fans to remove dust, requisites for washing, fencing round machinery.

Secondly, prohibition of certain work to certain categories of persons on moral or sanitary grounds, for example, the prohibition of all work under the factory laws to children under a certain age; prohibition of many unhealthy trades to children absolutely, and to lads or girls unless medically certified; prohibition of work in mines to children girls, and women; prohibition of factory work to married women for some weeks before and after childbirth.

Thirdly, regulation of the hours of work for some or all of the six categories of workpeople. Hitherto those directly protected in this way by the law have been mainly children, lads, and girls. In England they have been given the Sunday rest, the Saturday half-holiday, regular intervals every day for rest and meals, and protection from night work. Sometimes these regulations have been extended to both categories of women; sometimes (not in England, but notably in Russia) to adult men; but even without any such legal extension, it has come about in a great many factories, where the simultaneous labour of youthful and adult workers is necessary, that the latter class have in fact profited by the protection which at law is only granted to the former.

In England from 1802 to 1833 some partial and ineffectual Factory Acts were in force; from 1833 to 1850 was the decisive time of struggle: on the one side, the workpeople, the philanthropists (Lord Shaftesbury, then known as Lord Ashley,

being their great leader), and some of the land-owning class; and on the other side the manufacturing middle class, the orthodox political economists who, in the name of science, forbade interposition, and the statesmen who believed in them (Sir Robert Peel, John Bright, and Lord Brougham conspicuous among them). Protective Acts were passed, and evaded, and amended, and evaded again; but the final issue was that in the textile industries considerable protection to the workpeople was secured, and that in the mines the worst abuses were remedied. Since 1850, as it gradually became evident that the factory laws were not followed, as had been passionately contended, by the ruin of British industry, and that what did follow was the moral and physical regeneration of the textile workers and the miners, these laws have been extended to one industry after another. Other countries have followed the example of England, and since the Berlin Labour Conference in 1890, several of them have greatly surpassed us in this salutary legislation, and our factory laws need much improvement, for example, the age of employment for children to be raised; guarantees for the moral character of foremen to be required; separate lavatories for men and women to be provided; the Factory Acts to be extended to various unprotected workers, like shop assistants or servants in public-houses; and scandalous and needless exemptions be abolished like that in the fruit preserving factories, resulting in a seventeen hours' working day during four months of the year, often in a damp heat of 90 degrees. *See* APPENDIX Q.

§ 7. **Historical Sketch of the English Poor Laws.**—If the Factory Laws are an example of Government regulation rightly applied, the English Poor Laws are a grand example of regulation misapplied. The melancholy occasion of these laws was the destruction root and branch of the old institutions of charity, notably the plunder and suppression under Henry VIII. of between six and seven hundred monasteries, which had been the great centres of charity, and of some five hundred hospitals attached to the monasteries, and the total and ruthless spoliation under Edward VI. of some thirty thousand religious guilds, which served

in great part as institutions for thrift and mutual help. And this great spoliation was preceded and accompanied by the destruction of the livelihood of many families and their eviction from their homes as the result of the conversion of much arable land into pasture for sheep. This withholding of national resources was greatly aggravated, and the evictions greatly facilitated, by the substitution of new lay owners for the old ecclesiastics, who had been bound to their tenants by a hundred ties of conscience and tradition. A multitude of able-bodied men were consequently without employment or property; and the law treated them without discrimination as rogues and vagabonds. Indeed the laws against vagrancy were sharpened in that iron age, and a second or third lapse into "vagrancy" was punished from 1536 onwards with a felon's death.

With the seventeenth century came a change. The great evictions were mainly over; the great confiscations long past; agriculture had been renewed, trade and manufactures much increased; and by the Act of 1601 (43 Eliz. c. 2) the last and most famous *poor law of Elizabeth*, the principles were finally established that each parish must support its impotent poor and find work for the able-bodied, and defray the expenses by a compulsory poor-rate (first regularly established in 1572).

This Act was probably suited to the times; nevertheless it contained germs fruitful for mischief. Government was made the habitual giver of relief, not a mere reserve of aid for great emergencies; those not responsible for distress were made to pay

alike with those who were; the ties of service, of kinship, and of association were relaxed by a man's masters, or kindred, or trade, being no longer primarily responsible for his poverty. And thus the law which seemed humane became the occasion of severity so as to lessen the heavy burden of the poor-rate. One of the first difficulties was the question which parish was to support each particular pauper; its solution from 1662 to 1795 was not in name but in fact the *adscriptio glebæ* of the poorer classes of England by the *laws of settlement* described by Adam Smith, Bk. I. ch. x., which practically bound them to their parish; for they could be forcibly sent back from any other if they appeared likely to become chargeable to the rates. Another evil in the middle of the eighteenth century was the destruction of cottages, lest they should become, as the phrase went, "the nest of beggar brats." Workhouses had been introduced early in the eighteenth century as a test of poverty; and though in some cases for a time well-managed, and providing rational work for the unemployed poor of the locality, in general they were mismanaged by the annually elected overseers, and became centres of corruption. This was a third evil; and a fourth was the cruel treatment of parish apprentices bound for long periods to any one who would take them, with no security for their being properly trained and humanely treated. Then towards the end of the century, the pendulum swung back from severity to laxity, the workhouse test was virtually removed in 1782 (by Gilbert's Act), the restrictions on migration in 1795, and in this same

year was first introduced by some magistrates in Berkshire, whose action was called the Speenhamland Act of Parliament, the *allowance system* supplementing insufficient wages out of the rates—a system that spread rapidly. Other laws acted as an encouragement to illegitimacy, notably the large allowances granted for illegitimate children; and thus the poor laws took a part in promoting the misery and demoralisation of rural England. But that part though great has been greatly exaggerated; and there were other causes of the misery and demoralisation, such as the transformation of the rural population, chiefly by the enclosures or appropriation of common lands, from being proprietors or semi-proprietors, to being a helpless proletariat living from hand to mouth; and again the break-up of the old attachment of farmers and men, the men no longer mess-men and fellow-lodgers with the farmer, but unattached hands, bound to him by no tie, and living a separate life as an inferior and hostile class.

§ 8. **The New Poor Law of 1834 and its Issue.** —As soon as the terror of revolution or of invasion had passed away, the pendulum swung back once more from laxity in granting relief to severity, all the quicker from the great push given it by the classical political economists and their doctrine on population; and the *Poor Law Amendment Act* of 1834 was passed, which swept away a pile of old abuses, and as carefully put others in their place. There had been confusion in the manner of giving relief by the parochial authorities; in its place the

Act put the new abuse of the centralisation of the poor relief of all England in the hands of a Board in London, and struck a further blow at local self-government, and at any effective supervision of the poor, by making large Unions instead of small parishes the areas of relief. The Old Poor Law, as it was called, namely, the system in force from 1795 till 1834, injured the proper action of the family, of trades, of private associations, of religious bodies, of rich and powerful individuals, and of all employers by making the parish the one earthly providence for the poorer classes. The New Poor Law treated poverty as a misdemeanour, and avowedly sought to deter application for relief by coupling it with penalties. The chief penalty, called the workhouse test, was to make entry into a workhouse the condition of relief; and thus England has become studded with these vast buildings each from its very constitution, even with the best of officials, a horrible centre of cruelty and demoralisation. And by an irony of fate, the great endeavour to make poor relief deterrent, has indeed succeeded in making it deterrent to the honest poor who deserve compassion and help; but has afforded to the degraded and the guilty a refuge and encouragement.

Thus, as an excellent witness tells us, the oakum picking and stone breaking in casual wards, act as a cruel and degrading punishment to the honest poor (who of all people are the last to deserve punishment), and are wholly ineffective to check the vicious and the idle. (Montagu Williams, *Round London*, 1892, pp. 90—100.) And the very spread of education and refinement, with the overcrowding of such employments as clerks, teachers, and shop assistants, and the frequency of extreme poverty among them, have made the inevitable

uniformity and the uniform brutality of the treatment of workhouse paupers more repulsive than before, and slow starvation the less terrible alternative. *See* APPENDIX R.

§ 9. **Poor Law Reform.**—The poor law of 1834 in its main features has lasted till this day; and though many excellent men and women have striven to make it work efficiently, some supporting its principle by strict "charity organisation," by careful administration and refusal of out-door relief; others softening it by easily granted out-relief, and supplementing it by free dinners, refuges and homes; and both striving though in different ways to rescue children from its taint, and to use the powers of classification allowable among the paupers: their praiseworthy efforts are ever liable to be defeated by the inherent viciousness of the law, which by its very nature confounds vice and virtue, crime and misfortune, under the common and degrading title of pauperism; makes most difficult any effective classification; discourages thrift among those who most need encouragement, because the possession of property is a disqualification for relief; and becomes again and again the foster-nurse of criminality and immorality among the children that fall to its care.

This dismal failure and this spendthrift waste of the vast sums paid as poor-rates must continue till we have grasped the fact that no serious poor law reform is possible unless certain other reforms have been previously adopted, such as the laws already recommended on drink and on debt, and above all, the laws on workmen's insurance to be fully con-

sidered in the next chapter. Then indeed destitution would be reduced to dimensions that could be treated with simplicity and ease. Then the all-important distinction could easily be drawn, not indeed the pharisaic distinction between the "deserving" and "undeserving" poor,—"use every man after his desert, and who should 'scape whipping!"—but rather the distinction between the evil-living poor on the one side, tramps and able-bodied idlers, sots, and thieves, and bad women, and on the other side not only the widows and orphans, the blind, the halt, the lame, and the feeble-minded, but also all the other suffering poor. Then charity would have no occasion to be linked with police investigation; and while for the suffering poor the private alms of a Christian people would be abundant provision, the police of a reasonable Government would deal with the evil-living poor, and according to circumstances transport them to reformatories, homes, and rural labour colonies, where there would be necessity of labour, an absence of temptation, the presence of religious influences, and every opportunity of reformation; which, moreover, could be so far made self-supporting that the burden of poor-rates would be a thing of the past.

The future Report of the Poor Law Commission appointed in 1905 will be the central source of information for Poor Law Reform. Meanwhile much can be learnt from three small volumes, Percy Alden, *The Unemployed*, 1905; W. H. Dawson, *The German Workman*, 1906; and B. Seebohm Rowntree, *Poverty*, popular edit. 1903.

CHAPTER IX.

ASSOCIATION AND RESPONSIBILITY.

§ 1. **The Mediæval Trade Guilds.**—Among associations for industrial purposes the trade guilds which were so conspicuous in mediæval Europe deserve our attention, because for a long while they solved the problem of workmen's insurance that is so pressing in our own time. Their leading features were briefly as follows:

All who practised a trade were obliged to belong to a guild which regulated the conditions of production and sale. Every member had first to serve as an *apprentice* with a master who was responsible for his moral as well as his technical education; and when his years of apprenticeship were over, he became a *journeyman*, free to choose the particular master for whom he would work, and not exposed to the master's will concerning the hours and conditions of work and the amount of wages; for all this was settled by the guild. Later, when his savings were enough to pay the necessary fees, and his technical skill enough to perform a *masterpiece*, he reached the third stage, and became a *master*. But risen to this post he was bound by the very protective rules that had enabled him to rise. The guild, in concert with the urban authorities, regulated the hours of labour, the number of holidays, and the rate of wages; acted as a court of arbitration for settling all disputes, and effectively prevented the master from rising out of the middle class into the richer class by limiting the number of apprentices and journeymen that each master might at any one time employ. It also acted as a friendly society and popular bank, having a corporate fund, or collecting regular subscriptions from the members, to support such of them as were sick or old, as well

as their widows and orphans; and making advances in goods or money to members in difficulty.

In this organisation of industry there were indeed weak points: likelihood of delay in becoming a master, and difficulty of marriage before it; danger of vexatious disputes between guilds concerning the demarcation of their work, namely, what each might make and sell; liability of a guild degenerating into a monopoly for the benefit of a few masters, hostile to improvements and hampering production by antiquated regulations. But this is only saying that like all human institutions the guilds needed watching and periodical adjustment to new conditions; and their destruction without any proper substitute was a grievous injury to the poorer classes of Europe.

§ 2. **Characteristics of Trade Unions.**—A trade union in the strict sense has the three characteristics of being an association exclusively of workmen, and of workmen in industries mainly conducted on a large scale, and thirdly, having as the chief aim of the association to secure good terms for the workmen in dealing with the masters. In all three points trade unions differ from guilds, which indeed in some other points they resemble by acting as benefit societies and insuring their members against accident, sickness, and old age; besides spending vast sums on what the guilds had no need to do, namely, providing for members out of work. Historically, trade unions grew up in England with the growth of factories, with the destruction of small and domestic industries, with the abolition of the old official regulation of apprenticeship, of wages, and of hours of work. The unregulated relations that were the outcome of this industrial revolution, reduced the workers in the new *grande industrie* to the extremity of wretchedness, and trade unions arose as a measure of self-defence. Forbidden by

law till 1824, they began in secrecy and often were maintained by violence; but gradually won toleration, and at last, by the Act of 1871, legal recognition and even the approval of the public; and they have been imitated and are rapidly spreading in North America and on the Continent.

In England, the membership in 1898 was returned at 1,644,591, and these, with their families, included nearly one-sixth of the inhabitants. The members in general are the most skilful and superior workers in factories and mines; and from time to time even unskilled workmen have been organised in trade unions, though to maintain them is difficult. The proportion of unionists and their families to non-unionists may perhaps be estimated for the last quarter of the nineteenth century at about one unionist to three non-unionists; though such calculations are very rough, and the strength or weakness of trade unions varies in the most capricious way in different districts and trades. (L. Price, *Industrial Peace*, p. 101.) Some unions number ten, twenty, even forty thousand, while others are small, and many circumstances cause oscillations in the total membership. There have, in fact, been three high-water marks in their numbers during the nineteenth century, namely, in 1833–34, in 1873–74, and in 1889–90. See the excellent studies by S. and B. Webb, *History of Trade Unionism*, 1894, and *Industrial Democracy*, 1897, especially the latter work, in which the collectivist bias is much less apparent than in the former. Second editions of both works appeared in 1902.

§ 3. **Good Results from English Trade Unions.** —The benefits which trade unions have conferred, or helped to confer, on the English artisans are many. They have been one of the chief forces which have lifted the manufacturing and mining workpeople from the appalling misery of the unregulated regime. They have facilitated factory laws and the protection of women and children from cruelty and degradation. And for their members, besides acting as benefit societies, they have secured higher wages, shorter hours of work, removal of middle-

men (sub-contractors or sweaters), removal of many oppressive fines and penalties, check on brutality of foremen, support to those out of work. Also they have striven by enforcing apprenticeship and limiting the number of apprentices to prevent the lack of employment; they have given mental and moral training to their members, teaching them to debate and reason, to act in concert, to make provision for the future: and though they may have caused many more strikes than they have prevented, they certainly have been a prerequisite of Boards of conciliation and arbitration for settling all disputes between masters and workmen without any strikes at all.

§ 4. **Weak Points of Trade Unions.**—As they are constituted at present, trade unions, even when seen at their best, as in England, still show some grave defects. For *first*, where friendly relations exist between masters and men, the introduction of trade unions is likely to bring discord. And in fact the unions have opposed long engagements and permanent ties, and have favoured the doctrine that masters and men are merely two equal parties to a contract, like a buyer and seller, and that no deference or loyalty is due on one side, or care and protection on the other. And the antagonism is perpetuated by the masters forming no part of the union; whence it follows that the common interests of both masters and men remain generally out of sight, while their opposing interests remain ever in full view.

Secondly, trade unions being mere voluntary asso-

ciations, their duration is precarious; they can apply no legal compulsion to carry out their decisions, and thus are tempted to resort to illegal compulsion; while their habitual weapon the *strike*, that is, a concerted and simultaneous cessation of work till some demand is granted, is a great injury to national wealth, a cruel hardship to many innocent third parties, a grave occasion of disorder, and a source of bitter enmities that may become highly dangerous. Hence strikes are only justifiable where they aim at some benefit for the workmen which it is unjust in the master to refuse, and which can only be obtained in this way; and it is only too likely that these two conditions will not be fulfilled, and that the strike will in consequence be an injustice. And in some industries and employments which minister to the daily wants of society, strikes produce such inconvenience, that if they became frequent, no civilised Government could endure them; for example, general strikes of coal-miners or dock-workers, or even local strikes of workers on railways, on tramways, or in gas-works.

Thirdly, trade unions can only be applied with great difficulty to those who need them most, namely, the unskilled or women labourers, who are least able to make a favourable contract with the employer. The lower also the wages and the more frequent the want of employment, the more difficult the action of a trade union as a friendly society.

The conclusion from these weak points seems that though trade unions have in fact been of

immense benefit to the artisan classes of England, they have been far less beneficial to those of other countries; and in their present shape even in the British Isles are only palliatives, not remedies for social discord. But they may assume a shape in which, as we shall see, they would be prime agents of social peace.

§ 5. **Employers' Associations.**—As a counter force to trade unions with their weapon of the strike, employers' associations have been formed with their weapon of the *lock-out*. This is the concerted and simultaneous dismissal of workmen and closing of workshops till some demand is granted. A lock-out is of the same character as a strike, injurious to innocent third parties, injurious to national wealth, and a grave occasion of disorder and hatred. It is only justifiable if aiming at some benefit which it is unjust in the workmen to refuse, and which can only be obtained in this way. And in many cases a general lock-out, as of railway servants or dock-workers, would produce results so disastrous that immediate action by Government would be necessary.

The rapid growth in recent years of all sorts of combinations has made associations of employers easier and more easily extended; and the tendency of trade unions to amalgamate, to extend over a wider area, and to include many trades in a single federation, is met by a similar extension of employers' associations. Hence the possibility of loss from the industrial conflicts between these bodies is ever growing more serious, and the need of preventing them ever more pressing.

For the various details of these conflicts, such as picketing on the part of the men, blacklisting on the part of the masters, refusal to allow non-unionists to be employed, refusal to employ any but non-unionists: see the two works by S. and B. Webb, *History of Trade Unionism*, and *Industrial Democracy*, and the Report of the Royal Commission on Labour, well summarised by T. G. Spyers, *The Labour Question*, 1894.

On the issue of the conflicts it is roughly calculated that during the last decade of the nineteenth century about one-third have been compromised, one-third have ended in favour of the workmen, and one-third in favour of the employers; though the success of the latter is sometimes delusive, as the fear of another strike may induce them soon after to grant the demands they had previously refused; whereas the fear of another lock-out can be less easily held *in terrorem* over the workpeople. Moreover, if the loss to the workmen is more intense, the loss to the employers, according to the evidence of the Royal Commission, is more permanent. (Spyers, p. 16.)

But however this may be, there is no doubt of the disastrous effects on national wealth of the enforced and unwelcome idleness during a strike or lock-out. For it has been reckoned that during the eight years 1891 to 1898 the aggregate of working days thus lost in the United Kingdom was about 100 millions, or an average of 12,500,000 a year.

§ 6. **Boards of Arbitration and Conciliation.**—To avert strikes and the consequent injury both to masters and men, Boards of arbitration and conciliation have sometimes been established where the men have been sufficiently well organised in trade unions to be dealt with as a body. These Boards are composed of representatives of men and masters with full powers to settle all past disputes and arrange all future questions of work and wages. It was found possible for many years to settle in this way the most complicated tariffs and details in the hosiery trade at Nottingham, where the wages per piece were fixed in the case of six thousand different articles; and again in the manufacturing iron trade of the North of England, where there have been

great fluctuations of the trade and variations of prices during some thirty years.

When once set up these Boards, by appointing a small committee of inquiry, are able to have most disputes settled without being brought at all before the Board. Thus during seventeen years up to 1886 in the North of England iron trade the standing committee had held 276 meetings and adjusted nearly 800 disputes, while the Board had met 97 times, and only in 17 cases had had recourse to arbitration (L. Price, *Industrial Peace*, p. 37), which is the court of final appeal after conciliation has failed. Arbitration under such circumstances loses many of its difficulties; for a conciliatory attitude of the two parties has already been secured, and both recognise that the state of business, the costs of working, the carriage and the selling price on the one hand, and that the decent existence and customary wants of the workmen on the other hand, have to be considered. Where there are no Boards the difficulties are much greater, and it much depends on the personality of the arbitrators whether their award is accepted and observed. But still, the intervention of honoured and trusted men, whether ecclesiastics or statesmen, to allay industrial disputes is highly commendable and desirable under our present conditions; and those who condemn them as meddling in what concerns them not, forget that industrial war is a grave injury to national welfare, and thus is the concern of all good citizens; and that the alternative to such intervention would be that of a Government official with soldiers and police behind him.

§ 7. **Their Weak Points.**—Excellent however as the work of Boards of arbitration and conciliation has been, it is valuable chiefly as having shown to an unbelieving age how the fixing of fair wages is no hopeless task, but attainable in the most complicated and fluctuating industries. For in their present shape they are no solution of the antagonism of masters and men that afflicts us; for their existence is precarious, being liable at any time to be abandoned, as they have been in the Nottingham hosiery trade, in the Potteries, and in other cases;

they have no legal power to enforce their decisions; and they presuppose antagonism, instead of binding together the employers and the workmen in each factory as one body with common interests.

It has been well said of Boards of conciliation that they do not change industrial divisions from being *horizontal* as they are now, to being *perpendicular* as they were in the days of the guilds. Still less able than these Boards to allay social antagonism, are legal courts of arbitration such as were established by Judge Kettle at Wolverhampton to settle disputes without a strike. Delegates from trade unions and masters' unions met, and formed a court, obedience to whose decisions could be enforced at law, because both parties had legally contracted to obey. These courts did not last many years; and we have not introduced into England the *conseils de prud'hommes* of France, Belgium, Italy, and Germany, excellent legal institutions for settling amicably, cheaply, and promptly, by a court of masters and men, disputes between them respecting *past* contracts; but no means of settling disputes on *future* wages and terms of work; and thus carrying us a very little way towards industrial peace.

§ 8. **Sliding Scales.**—The work of conciliation has sometimes been facilitated by the adoption of a *sliding scale*, namely, the regulation of wages in automatic fashion according to prices ascertained at certain intervals. This method of settling wages where the industry and the circumstances are suitable may save time and trouble, lessen occasions of dispute, and without injuring the workpeople, may be a great convenience to the masters, especially in making contracts for long periods ahead. But it is a mistake to suppose that a sliding scale provides an easy way of preventing any strike or lock-out and of harmonising the interests of employers and employed. For it generally involves great difficulties and is liable to cause great evils.

The *difficulties* are first to find a satisfactory basis for settling the relation of prices and wages; and in practice this has scarce been found possible except in industries such as coal-mining, where the product is principally the result of one simple kind of labour. Then "it is difficult to draft a scale which will satisfy the men and at the same time make it the employers' interest to see prices rise. To be successful, therefore, a scale must not merely fix the proportion between wages and prices, but must provide for a shifting of that proportion in its extreme ranges. That is to say, when prices are very high, the pace at which wages rise relatively to those prices must be accelerated. And conversely, when prices are exceptionally low, the pace at which wages fall relatively to those prices must be slackened. Again, care must be taken to make provision for a sufficiently wide range of prices. Very often sliding scales fail because prices rise or fall beyond their limits altogether. . . . The drafting of a fair and workable scale demands the greatest possible experience of the vicissitudes of the trade." (T. G. Spyers, *The Labour Question*, pp. 59, 60.)

The *evils* are first the encouragement of reckless competition, underselling, and "cutting of rates," because the masters know that part of the loss through low rates will be recovered out of the men's wages. And secondly, as pointed out by S. and B. Webb, *Industrial Democracy*, p. 577, "every improvement in productive methods, every cheapening of the cost of carriage, every advance in commercial organisation, every lessening of the risks of business, every lightening of the taxes or other burdens upon industry," by lowering price lower wages automatically, or at least would lower them unless the sliding scale were revised to meet the new conditions. But the burden of proof to show the need of a revision rests with the workpeople and places them at a grave disadvantage. Or else, if revision is always to be had very quickly and easily, much of the convenience is lost of having a sliding scale at all.

It is not surprising then that this device, in spite of Dr. Smart's advocacy (*Studies in Economics*, 1895, ch. iii.), has not been able to prevent industrial warfare, such as the great dispute in the South Wales coal trade, in 1898; has scarcely extended beyond the coal and iron industry; and has in

general been abandoned by the workmen whenever they have been strong enough to abandon it.

§ 9. **Industrial Partnership or Profit Sharing.**—Taken in a wide sense these terms can include all the many forms of remuneration whereby, though the distinction of employer and workmen continues, and thus the business is not to be called co-operative, still the workmen share in the produce or in the profits of the business, and are joined with their employer in a kind of association.

Now undoubtedly in many cases this method of paying workmen is a good method, where superintendence is difficult, where wages form a large part of the employers' costs, where a great difference is made in the results according as the labour is careful or careless. Hence its application time out of mind in agriculture, the rural labourers being given a share of the produce; so notably in many cases of metayer-farming, where the farming is a sort of joint venture of landlord and tenant. Again, in fishing the method of payment by a share of the produce is almost a necessity; in commerce salesmen are often stimulated to activity by receiving a percentage on their sales; and in general the higher and confidential workmen, on whose zeal the prosperity of a business is largely dependent, are often given some direct interest in the profits.

In the commercial world in China such method of payment is said to be universal: from the senior partner down to the errand boy, each has his share of the profits of the establishment duly graded.

In a narrow and strict sense, profit sharing is confined by Mr. Schloss "to those cases in which an employer agrees with his employees that they shall receive, in partial remuneration of their labour, and in addition to their ordinary wages, a share, fixed beforehand, in the profits of the undertaking to which the profit-sharing scheme relates." (*Industrial Remuneration*, 3rd Edit. pp. 247, 248.) This narrow sense is generally what is meant by writers

on profit sharing; many examples are given by Mr. Schloss (*Ibid.* ch. xx. and Appendices), and in 1897, in the United Kingdom, the workpeople in profit sharing firms were nearly 50,000, the firms nearly 100, and the results in general satisfactory.

§ 10. **Weak Points of Profit Sharing.** — If, however, we look at the profit sharing, not as a useful method of payment under certain and limited circumstances, but as a means of healing the discord between masters and workmen, it will appear a means of little efficiency. In a multitude of enterprises there is the obvious objection to profit sharing, that the earnings of workmen are made in part dependent on good or bad management over which they have no control. A secure and steady income is what the mass of workpeople require, not one liable to great fluctuations; the dawdling due to time-wages and the roughness due to piece-wages can be met by rewards for industry, good work, and saving of materials, just as well as by a bonus on high profits; while no suspicion could then be aroused of profits being misstated, or an undue sum being carried to the reserve fund, and no claim could be made for publicity of the accounts or for a voice in the management.

As a mere system then of paying wages, profit sharing is only sometimes the best; and is no solution of the social question, and offers no security for permanent livelihood, decent homes, and industrial peace. Indeed, it has been used in several cases as a weapon of industrial warfare, to detach workmen from trade unions by the allurement of

a bonus; and the bonus has been denounced as stimulating men to exertions injurious to the lasting powers of work, and as being abused to be one of the worst forms of competition. No wonder then that the application of profit sharing has been limited, and that in many cases it has been abandoned. (Examples in Schloss, l.c. Appendix A.)

The illusions of economists on profit sharing are in part due to the same causes as the illusions on co-operation described in Bk. I. ch. v. § 20. Thus even Jevons could be in such darkness on history as to think profit sharing a wonderful invention of his times; and again Fawcett augured a new and blessed epoch from its introduction. But partly also the brilliant success, both morally and financially, of certain profit sharing houses, notably in France (like the *Maison Leclaire*, praised by Mill, IV. vii. § 5), has been misleading. For the success of houses that can get picked workmen is no criterion for the employers of the mass of workmen; especially when much of the success of these houses is due, not to the profit sharing, but to "welfare institutions," to be described later, and wholly distinct from profit sharing.

§ 11. **Need of Strengthening the Organs of Conciliation.**—The insufficiency of the actual means of preventing industrial warfare, whether Boards of arbitration and conciliation, or sliding scales, or profit sharing; and also the absurdity of the law ignoring the actual conditions of industry, and the multitudinous and wide-spreading combinations of employers and of workmen, point to the need of adapting our legislation to our times.

Even with the law as it is, the organisation of collective bargaining has been carried very far. So in the cotton-spinning and cotton-weaving of Lancashire, where each side has paid experts to arrange the difficult application of complicated agreements. And in several of the Birmingham hardware trades for some years associations of employers

and trade unions in alliance together, agreed to refer all matters first to a Board of conciliation, and to obey an arbitrator in case of disagreement. (See the details in E. J. Smith's *The New Trades' Combination Movement*, 1899.)

Another instance is the settlement of the great conflict in the boot trade in 1895, by establishing local Boards of arbitration and conciliation, with full power to settle all questions of wages and hours of labour, without interfering with the introduction of machinery, with rules for keeping order in the factory, or with the right to object, respectively to employ any particular workman, or to work for any particular master. And by the lodgment of funds by both parties in the hands of trustees a means is provided of enforcing the decision of the Boards by pecuniary penalties. (See details and comments in *The Times*, April 20, 1895.)

§ 12. **The Incorporation of Trade Unions and Compulsory Arbitration.**—The foregoing efforts after industrial peace, excellent as they may be, are but imperfect and precarious. The splendid organisation of the Lancashire cotton trade is no security against a disastrous strike or lock-out; the Birmingham Alliances dissolved, and the boot trade Conciliation Boards, like other voluntary combinations, are ever in danger of dissolution; it is indeed the standard difficulty of employers' associations to bind their members. (Spyers, *Labour Question*, p. 30.) What is wanted is a change in the law.

The English Conciliation Act of 1896, empowering the Board of Trade to receive applications from disputants to intervene as a peacemaker or even to do so *proprio motu*, is a good law as far as it goes, and has settled a certain number of industrial disputes. But it goes a very little way and provides no authority for staying even the most foolish and disastrous strife.

It is otherwise in New Zealand, where by a law of 1894 trade unions are incorporated, and as well as the employers' associations have a corporate liability. Local conciliation Boards are legally recognised, can compel attendance of witnesses, and call for persons and papers needed for reaching their award. They cannot enforce their award, but if it is

not accepted the case comes before an arbitration court, composed of a judge of the Supreme Court, with two assessors, one elected by the employers and one by the trade unions. And the decision of this court has the force of law and cannot be set at naught.

Observe, that to say of such compulsory arbitration that it "means in fact the fixing of wages by law" (S. and B. Webb, *Industrial Democracy*, p. 245), and to speak of legal enactment as though it rendered collective bargaining superfluous, are misleading expressions. It is one thing for the law to be the habitual and only fixer of wages, and another thing for the law to intervene when the habitual means of fixing them have broken down. A reserve force is not the same thing as a force in action; and it is no objection to the employment of a troop of soldiers to defend a private house in a riot that no Government could at all times be defending all private houses each with a troop of soldiers.

It seems then, if we follow the principle of making the best of what we have got and of amending our institutions when possible, rather than abolishing them, that the time has come for the English law to organise collective bargaining, to recognise and to foster both trade unions and employers' associations, according to the suggestion of the Duke of Devonshire and six other members of the Royal Commission on Labour, and so far assimilate them to the old guilds that everywhere power shall be linked with responsibility.

In England this might be effected as follows: Let every trade union and every employers' association under pain of being held an unlawful conspiracy, be registered; and by registration become incorporated, able in its own name to sue and be sued, with legal liability to its members and legal rights against them; and let its endowment with property be fostered in every way with the double purpose of making the union or association law-abiding for fear of losing its property, and of making the members obedient to its decisions for fear of losing the manifold advantages (pecuniary and social) of membership.

Then let all industrial disputes (or those that paid experts

cannot settle) be submitted to conciliation Boards, that might be given the powers they have in New Zealand; and if they cannot agree, then let the dispute be finally submitted to a compulsory tribunal of arbitration, drawn from the judicial Bench, and with representatives of masters and men as assessors. The decisions of the tribunal would as far as possible be retrospective, taking effect from the time, not of the final award, but of the first dispute; they would presumably be reasonable, unless we suppose the great body of our judges to be ignorant, stupid, prejudiced, and indifferent to public opinion; and they could easily be enforced, not indeed against penniless or disembodied associations, nor against unorganised crowds, but under the conditions supposed, against associations with legal personality and with property that could be sequestrated, and also against individuals with membership that could be forfeited.

In such ways, duly modified according to the circumstances of different countries, the rude weapons of the strike and the lock-out could be cast aside, and as great a measure of industrial peace secured as man's condition allows us reasonably to expect.

Finally, this renewal of industrial peace is in close connection with the renewal of industrial security in the timely shape of workmen's insurance; and the two reforms assist each other.

§ 13. **The Quadruple Insurance of Workpeople.**—The four great heads of workpeople's insurance, each requiring distinct treatment, are first, industrial accident insurance; secondly, sickness insurance, under sickness including accidents unconnected with employment; thirdly, old age and infirmity insurance, the term infirmity (*Invalidität* in German) being equivalent to premature old age, and old age in this connection being equivalent to industrial infirmity; fourthly, out-

of-work or unemployment insurance, or provision for those who though able-bodied are unemployed. Let a few explanations be added on each of the four heads.

Accident insurance in the United Kingdom is in a manner provided by the Employers' Liability Acts and by the Workmen's Compensation Act, the former very insufficient, and even the latter (passed in 1897) very imperfect, fostering litigation by its obscurity, and by the unhappy admission of the plea of "contributory negligence" against the workmen; but a great step in the right direction, and capable of amendment and extension. In many other countries, Germany being conspicuous, various laws have been passed or discussed recently on this branch of insurance (which in England is generally known as Workmen's Compensation), the general and reasonable trend being towards treating industrial accidents like damage to machinery as part of the costs to be wholly defrayed by the employer; and the method of meeting such costs to be (at least in all the more dangerous trades) the compulsory insurance of workpeople by their employers. (Specimens of legislation up to 1898 are given by Wolff in the *Economic Review*, Vol. VIII. pp. 88—98 and pp. 237—240.)

Sickness insurance in the United Kingdom is not compulsory; but in fact by the voluntary efforts of the workpeople a large proportion of them are secure of sick pay through the two agencies of friendly or benefit societies and of trade unions. In Germany, where such voluntary provision is much smaller, compulsory sickness insurance has been introduced, and sick pay for thirteen weeks, provided by contributions, $\frac{2}{3}$ of which come from the workmen and $\frac{1}{3}$ from the employers.

Old age and infirmity insurance, scantily provided in England, is a grave and urgent problem; friendly societies being unable to solve this problem, which is made more serious by the premature exhaustion of working power due to the stress of modern work (*supra*, Bk. I. ch. iv. § 12); and made also more serious by the law on accident insurance: our Compensation Act causing in its isolation the premature discharge of the weakly and the elderly. And though the trade unions do something towards the solution, spending in 1898 over £160,000 in "superannuation benefits," this good work fails to reach the most destitute of the population. The classical example of insurance against old age and enfeeblement is Germany, where employer and workman each pay half the insurance premium, and the Government supplements

every pension by 50 marks a year. For a summary of the whole subject see W. H. Dawson, *The German Workman*, 1906, ch. xv.

Out-of-work insurance, the last but not the least necessary head of insurance, still remains unorganised even in Germany; and indeed it is the English trade unions that have been as far as they have extended the most conspicuous agency in supporting the unemployed. See the instructive details in S. and B. Webb, *Industrial Democracy*, pp. 160—172. The trade unions in 1898 spent over £240,000 in "unemployed benefit," quite apart from what was spent in cases of strike or lock-out. But for an immense number of workers, many of whom are in greatest need of this kind of insurance, their work ever liable to interruption by change of weather, of season, of fashion and of demand, and their numbers—namely, of those willing to work, but unemployed or only half-employed—being in England probably never less than 200,000, and periodically many more, no out-of-work insurance is provided. True that both for unemployed and disabled there is relief under the Poor Law; but their conversion thereby into paupers is not insurance, but the polar opposite and total failure of insurance. For labour bureaux *see* APP. S.

§ 14. **Law of Responsibility.**—The fitting organisation of the quadruple insurance requires a corresponding law of responsibility. We saw (in ch. vi.) that the justification of riches implies the responsibility of the rich for the decent livelihood of their workpeople and tenants. Now in our own times unless this responsibility is placed in fact or by law on particular shoulders, it must fall on society in general in the shape of great national institutions of poor relief, or other measures of a collectivist character. For remember the characteristic of modern collectivism is the substitution of the collective action of the State for the private action of individuals, families, or associations; and where private responsibility is the least, and the private bonds that link men together the weakest, there the

liability is the greatest to find in the State the one agent of responsibility, the one bond of social union. It would be wise then to make the liability to accident, sickness, disablement, old age, and disemployment, not occasions of dissolving private bonds, but of strengthening them; and to make every Government office, and every joint stock company, and in time, and, if rated above a certain sum, every other kind of association, and every individual employer and individual owner of property, responsible for the maintenance of all who work for them or work on their property, and, within a reasonable time, for all whom they have compelled to quit their employment or their property. And to prevent men incurring responsibilities they cannot fulfil, it should be the duty of public authorities to call on those conducting new and doubtful undertakings to give security that in case of failure there should be adequate provision for the workpeople. On the other hand, the persistent and unreasonable refusal of a workman to insure himself, not indeed against industrial accidents, but against sickness, infirmity, and old age, should be a valid ground for his dismissal without his employer being further liable for his livelihood.

This law of responsibility, in connection with the spread of the quadruple insurance, is in process of adoption in several countries, and would impose no new burden on our own, taken as a whole, but only shift it from a helpless aggregate of ratepayers to definite individuals or bodies able in great measure to check the causes of poverty, and with great interest in checking them.

§ 15. **How Friendly Societies would profit by the Law of Responsibility.**—Moreover, the law of

responsibility would induce us to turn to the best account two of our greatest social forces, our friendly societies and our trade unions.

In order to meet the three first insurances, there would be a keen search for a safe and cheap system of sick pay and old age pensions. Not only would the unsound local clubs and societies disappear, but also the expensive forms of insurance like the "Collecting Societies," whose three and a half million members lose on an average some 40 per cent. of their payments in expenses of management; whereas those expenses in the great "Affiliation Societies" (like the Foresters or Odd Fellows) are only on an average some 7 per cent.; and hence these latter societies, numbering in 1899 some two and a half million members, and with funds of nearly twenty million pounds, would probably, were the law of responsibility in force, soon double or treble these numbers and these funds. And by this private, autonomous, and decentralised insurance we should avoid the danger of *simulation*, malingering, or pretended sickness, a danger to which any national and centralised system of insurance is liable. (Cf. S. and B. Webb, *Industrial Democracy*, p. 101.)

The fourth insurance would meet a great and characteristic evil of our times, the fluctuations of employment, alternations of over-work and of being out of work, notably in the building and clothing trades, among many seamen and most common labourers. The rich and powerful would be obviously interested in providing permanent employment; and where permanence of a particular employment was impossible, in providing a second or third or fourth employment in case of interruption of the first, and thus reducing to a minimum the evil of break of continuity in employment. Persons and places needing labourers for certain periods only of the year could be trusted to have sense enough to organise an interchange of labourers, instead of employing a man as they do now for a few weeks or months of the year, and then, as far as any effort or thought of theirs is concerned, letting him starve for the remainder.

But then adequately to remedy the actual "casual and inhuman relations between employers and employed" (*The Times*, April 14th, 1891), and to fulfil the obligations under the law of responsibility, immense help could be given to employers by trade unions, and would be given if the law were in force on the incorporation of trade unions and compulsory arbitration recommended above. For not merely would the artificial occasion of being out of

work through lock-out or strike be at an end, but associations of masters and men would be mutually interested in organising apprenticeship and in preventing, for example, the overstocking of the cotton and of the printing trades with boys not one half of whom can hope as grown men to find permanent employment in those trades.

§ 16. **Encouraging Examples: Welfare Institutions.**—Lest the reader be discouraged by the apparent weight of responsibility laid on the shoulders of the rich for the quadruple insurance of workpeople, and for their decent dwellings (*supra*, p. 150), let a few examples be given of what has been actually done even under our present laws or under laws still more defective, as in France.

A great soap factory on the Mersey, employing some 2,200 workpeople, has provided most of them with good houses in a model village, and all of them with recreation grounds, library, lecture hall, and cheap good dinners. All who wish can have at a nominal rent eight rods of allotment garden with water laid on. And these gifts are not neutralised by unhealthy conditions or excess of work; the working day is eight hours, the factories spacious and well ventilated. Well-equipped schools are provided, and a village council and self-government by the workpeople is not only permitted but encouraged. (See the account of Port Sunlight in the *Economic Review*, Oct. 1898, pp. 524—528.)

Many other English firms have established similar *welfare institutions* (as they are sometimes called), such as cheap and good houses, free baths, recreation halls, recreation grounds, libraries, cheap and good meals; though as yet no adequate description of them is available (*Economic Journal*, March, 1900, pp. 72, 73); and abroad many similar examples may be found. The admirable institutions for the benefit of the workpeople in the great factory of M. Harmel near Rheims, are described by Mrs. Crawford, *A Key to Labour Problems*, London, 1896. Another conspicuous example in France is that of the six great railway companies, who spend annually some thirty million francs, or £1,200,000, on pensions, and who also support or subsidise a quantity of other welfare institutions, for example, the Eastern Railway spends about £50,000 a year on medical help and sick pay; and the Lyons Railway at an expense of about £35,000 a year provides decent

houses for its servants in places where lodgings are dear or the climate unhealthy.

How the famous firm of Krupp, in Rhenish Prussia, provides efficiently though somewhat autocratically for the decent housing of many thousand workpeople can be read in the *Economic Journal*, March, 1900, pp. 78—80. For our imitation a better example is the plan adopted by the firm of Van Marken, at Delft in Holland, placing the ownership of the workmen's dwellings, gardens, and park, not in the despotic hands of the employer, nor in the slippery hands of the workmen, but in those of a joint stock company, of which both employers and employed are shareholders. And the shares can only be transferred with the consent of the directors. Hence the workpeople enjoy fixity of tenure in their dwellings, unless their misconduct is such that the company, where the voice of their fellow-workmen is heard, expels them. And while thus secure, they are not tied by the ownership of a particular house, but can shift to one larger or smaller according to the needs of their family, and can leave altogether without loss. The details of application of this plan are given in the *Staatslexikon* published by the *Görres-Gesellschaft*, I. pp. 411—415. Also many further examples are to be found in the German translation of this work, pp. 365—374; and a useful collection of many examples has been made by Mr. Budgett Meakin, *Model Villages and Factories*, London, 1905.

The moral of such examples is not indeed that every employer can forthwith do as these have done; but that the gradual pressure of a humane and reasonable law will cause the withdrawal of those who are unworthy or incompetent, and will cause all the rest to take the means, such as association and mutual insurance, which will enable them to fulfil the responsibilities of their office.

§ 17. **Question of Old Age Pensions.**—We can now easily solve the much-debated question of old age pensions, on which in recent years there have been three distinct official inquiries and more than a hundred distinct proposals. Granted that there was no other alternative to the present

irresponsible wealth tempered by the poor rates, it might be argued that to grant an adequate pension to all over 65 who were in need of it, excepting those of known criminality or notorious bad character, would be less demoralising than to allow, as at present in England, nearly 30 per cent. of those over 65, many of whom have deserved well of their country, to be branded as paupers and in many cases compelled to face the utter degradation of the workhouse. It is frequently held that the only alternative to such a scandal is some plan of old age pensions paid out of the taxes; and this belief explains the popularity of these proposals, to which in themselves the objections are so grave and so obvious. For *first*, the cost of such pensions would probably require an addition of over £20,000,000 a year to the taxes. *Secondly*, the inconsistency could not be long endured of treating other disablement so differently from that of old age, and compelling the many workmen worn out at 55 to spend ten years in a workhouse before receiving a pension. And if we judge from the German experience of the relative expense of disablement and of old age, to remedy the inconsistency would mean to double the expense. (H. W. Wolff on Old Age Pensions, in the *Economic Review*, July, 1899.) It follows, *thirdly*, a vast bounty would be given to all exhausting and unhealthy industries and conditions of work; no individual employer or body would be interested in checking premature old age; the healthy trades and leisurely work being taxed to pay for the ravages of the unhealthy trades

and over-compressed work. *Fourthly*, the grave problem of how to help the unemployed, that is, out-of-work insurance, would not be touched; and precarious and irregular industries would receive, as they now receive, a bounty by being able to shift to others the cost of taking care of their unemployed.

Observe, however, that if we simply dismiss the cry for old age pensions as folly and mischief, we mistake its significance. The cry is an indication of grave social distress; and unless we are prepared with a reasonable remedy we must expect the sufferers and the sympathetic to grasp at any professed measure of relief. Again, it is not wise to urge that old age pensions would destroy thrift and self-reliance and be the ruin of our grand friendly societies. For in general old age pensions are precisely what our friendly societies do not provide; and precisely those bodies who do provide them, namely, the trade unions, are in favour of old age pensions being provided by the State; while the argument on thrift being discouraged is of dubious weight, of irritating character, and often appears, as in the case of most female workers, a bitter mockery. The true argument is to organise, as shown above, the quadruple insurance. (Cf. Mr. Luard Pattison's scheme in *The Times*, April 5th, 1899.)

POLITICAL ECONOMY.

Book IV.

Public Finance.

CHAPTER I.

FUNCTIONS AND COST OF GOVERNMENT.

§ 1. **General Character of Public Finance.**— While the word finance by itself is used loosely in English to express any statement of monetary accounts or comparison of income with expenditure, the terms public finance or the science of finance have been appropriated to express the science of the revenue and expenditure of all kinds of Governments. Although more properly a branch of political science, some portions of it, notably the theories of taxation and public debts, have been generally included in works on economic science; and rightly so, because of the great effect that taxation and loans have on the manner and facility with which each family gets its livelihood, and continues its existence. Let us then examine the general

principles of public finance as they follow from the *economic* principles already proved, and from the *political* principles assumed and briefly stated below.

Students will find in modern economic writers much obscurity and divergence of opinion on public finance; a natural consequence of obscurity and divergence of opinion on the nature, the functions, and the consequences of private ownership on the one hand, and of the State on the other; and until these economic and political premisses are settled, the financial conclusions cannot be settled. Obscurity, however, is better than the illusive light of the epoch of Ricardo, when by the political theory of the police-constable State (*l'Etât gendarme*) the office of Government was reduced to a minimum; and by the economic theory of universal competition and perfect mobility within each country, with normal rates of wages and profits, an imaginary theory of taxes and of who ultimately paid them (their incidence) was constructed with great pains but little profit. Cf. Bastable, *Public Finance*, pp. 341—344. This and all other references to Prof. Bastable's work are to the second edition (1895).

§ 2. **Summary on the Nature of the State.**—It is idle to argue about taxation till we are agreed not only on the economic but also on the political premisses of the argument. These last must now be stated.

There is unfortunately no general agreement about them to this day; and though it is well that the political philosophy of Bentham, Austin, and Mill has lost credit in our seats of learning, and has yielded to Hegel and Green: it would be better if there were a reversion to more ancient teachers, more lucidity, more observance of the rule of the golden mean, more conformity to the facts—often sad and unwelcome—of present life and past history. That the State *ought* to be reasonable and humane (as repeatedly urged in this volume), is no ground for saying that *ipso facto* the State *is* reasonable and humane, nay, the eternal expression of reason and humanity, of our better self and real will. Again, because we recognise in the State a social organism, this truth is no reason for making the State a social octopus, devouring all other social organisms—family, guild, Church—within its reach. But the due examination of con-

clusions different from those about to be set forth, the due defence and proper criterion of natural law and rights, the due appreciation of counter arguments, the due explanation of different points of view, all belong to a manual of political science, and here must all be passed over.

Now the need for the existence of the State with its array of soldiers, constables, and tax-gatherers, rests on three grounds: first, the natural sociability of men, or their desire and their need of living together; secondly, their endowment by their Creator with various rights; thirdly, their moral and intellectual imperfections. If any of these grounds were absent, the State would not be necessary: not necessary if men were inclined and destined to live in isolated families; not necessary if man, like the beasts, had no rights, namely, no claims upon others of such a cogency that compulsion may rightly be used in their defence; not necessary if the mass of men were so wise and so well disposed that every right was both clear and secure. If "we were all of one mind, and one mind good; O, there were desolation of gaolers and gallowses!" (*Cymbeline*, v. 4.) But with the world as it is, the *State* is necessary; namely, a society comprising a multitude of men, independent of any other society (in the temporal order), and having as its aim, not some particular good (like private societies), but the temporal felicity of all its members, by making peace and order, wisdom and justice prevail.

Man indeed being destined for a supernatural end, it follows that the earthly city must have as its ultimate end the attainment of the heavenly city, and temporal peace be but a means to reach the eternal; but that is the ultimate, not the immediate end.

Now if the society called the State is to fulfil its end, there must be a supreme authority within it. The authority may be that of one, of a few, or of many persons, may arise and grow in various ways, may be distributed in the most complicated manner among national or provincial bodies, and may even to a certain extent be indefinite; but these are accidents: the essence of the situation is that when lawfully established this authority has the right to the obedience of all the other members of the State. They are bound to obey, not always in the same manner, but for the same reason that a son obeys his father. In each case the natural law bids obedience; for the family or domestic society, and the State or civil society, are both necessary in our present condition on earth; hence the subordination required for the working of these societies is commanded by God, who is the author of nature, and whose law, so far as made known

to us by the light of nature, is called the natural law. It follows that in every State the lawful authority, called the *Government* or *Civil Power*, has, like parental authority, all its rights from God. If it is otherwise, and the natural law non-existent, then, as Burke told our forefathers, "on that hypothesis, let any set of men be strong enough to set their duties at defiance, and they cease to be duties any longer." (*Works*, iii. 79.)

§ 3. **Primary Functions of Government.**—From what has been said, the *functions of Government* can be determined with some accuracy. They are mainly to protect the rights of all by making clear what they are and then enforcing respect for them. Every one in ordinary circumstances has the right to life, to health, to moral integrity, to a certain measure of moral and intellectual training, to a fair name, to the power of making and receiving promises that bind, and of joining in honest associations. And every family has the right to that measure of independence which is needful for proper family life, and the right to attain to the ownership or at least the exclusive use of a certain amount of property. How these general rights are to be made more precise, and how they are to be enforced, are problems that require to be solved in different ways according to the great variety and changes of historical circumstances; and hence the great differences in the laws simultaneously in force in England and Bengal, or successively in England under the first and the fourth William, are no sign that one or other of these sets of laws must be wrong, but much rather a presumption that both are right.

Then besides these *original* and *universal rights*, a multitude of others spring up within every State in course of

time, rights to hold particular goods to the exclusion of others, rights to claim from others obedience, or honours, or services, or payments. The very State itself is an historical growth; it may be very simple, or again very complex, embracing various nations or races, or local communities, or families, all with rights of their own. Thus in the German Empire, in the United States, and still more in the British Empire, where a number of different countries form together one vast imperial State, the Civil Power is divided in various ways among a number of persons and of local bodies that it would take long to enumerate. Now all these *historical* and *particular rights* of private or public persons are to be respected; for they are either the natural consequence of the exercise of original rights, or though originally a usurpation, have become justified by long use; for long use or prescription not only in economics, as we have seen (Bk. III. ch. v. § 12), but also in politics, must be admitted as a just title by a moral necessity to escape endless disorder. Only remember well that no historical or particular right can take away the original and universal rights of every individual and of every family. Hence there is no place for arbitrary power, whether in public or private life; nor is any violation of the natural law to be tolerated on the ground that this law has been set at nought for a hundred years or by a hundred statutes.

§ 4. **Secondary Functions of Government.**— The end of the State being temporal felicity, the Government has further functions. Some of these, indeed, by a stretch of language, can be included under the function of protecting the rights of the subjects to life and health, for example, preventive or remedial measures against famine, flood, fire, or pestilence. But other functions cannot, by any reasonable use of language, be called the protection of any one's rights, having rather as their purpose to foster cultivated life and national wealth. They can be grouped under three heads:

First, the promotion of literature, science, and art, by museums, libraries, collections of works of art, schools of sculpture, painting, and music, Government theatres and

public concerts. *Secondly*, the promotion of industry in general by making or helping roads, bridges, canals, railways, by postal and telegraph service, by weights and measures and coinage, by institutions of credit, by re-afforesting and other reclamation of wastes, by home and foreign colonisation. *Thirdly*, the promotion of particular industries by protective duties and bounties, as described Book I. ch. v. §§ 10—15, and by model farms, example plots, experimental stations, Government technical schools for art industries, horticulture, agriculture, and fisheries.

Much information on how these secondary functions of Government have been exercised in Europe, and the good results that follow, can be found in the *Report of the Recess Committee*, published in Dublin, 1896, Wurtemberg and Ireland serving as notable examples of fulfilment and neglect. See also the details on Wurtemberg in the *Economic Journal*, Dec. 1899, pp. 611—625. A similar contrast can be drawn between Bosnia and Cyprus since 1878. See the instructive account of "Austria's work in Bosnia and the Herzegovina" in *The Times*, October 11th, 1898.

In such cases the Civil Power acts, not as the protector of rights, but as the promoter of general welfare. Nor need we be afraid that by admitting such functions we open the door to unrestrained intervention. For on all sides there is the restraint of innumerable private rights, all of which, even those of the feeblest orphan or poorest widow, the Government is bound to respect by the very law which justifies it own existence. Sometimes indeed some public good is so great and so evident, and private rights in the way of it are so slight, so obscure, or so easily compensated, that the Government is justified in setting them aside. But such exceptions prove the rule; the Government will have violated no rights, for the rights in their old form will have ceased because of their repugnance to the public good; and assuredly Government intervention thus hedged about has nothing in it

unrestrained or arbitrary. Hence, although it is convenient to distinguish the protection of rights as the *primary function* of Government, and the promotion of public welfare as the *secondary function*, it is not at all necessary to be anxious about drawing a precise line between them, to decide for example whether the prevention of our streams being turned into sewers, and our hill-sides into treeless wastes be a primary or secondary function of Government: but very necessary to be anxious that we be secure of unpolluted streams and abundant woods.

For our present purposes there is no occasion to enter on further political discussions, how, for example, the sovereign power should be constituted; what is a lawful Government; how far inequalities of power can be justified. Rather, assuming a lawful Government, let us notice certain points regarding the exercise of public functions and their cost.

§ 5. **Private Exercise of Public Functions.**— No Government can protect all rights completely and fully; and hence in all societies private persons are put to a greater or less expense in securing by their own private exertions both peace and justice. The locksmith's bill, the auditor's fee, the solicitor's charges, as already observed (Bk. I. ch. vii. § 16), are of the same character as taxes to pay soldiers and sailors, judges and policemen.

That the defence of rights should be thus left to private persons, is by no means an evil if kept in due limits. What these limits are, is a political question, and the answer will vary much with times and circumstances. As Professor Bastable points out, the great development of an effective

police force in modern times has arisen from the density of population and easy means of locomotion, making easy the escape of offenders from individual pursuit; and also from the accumulation of property easily stolen and hard to identify. (*Public Finance*, pp. 75, 76.) But the point here is not so much the reasons for leaving or not leaving in private hands the defence of rights, as rather the character of the expense. Thus, in the mines of Dakota the pay of "fighting men" is a regular and considerable item in the outgoings; while in Great Britain the obscurity of the law and the complications of ownership require every family of distinction to have a family solicitor; and both cases are alike in being private expense on the primary functions of Government. Sometimes private expenditure meant to be wholly or chiefly for recreation is of such a kind that it gives considerable help to the work of Government, for example, the sport of archery in mediæval England, and yachting and rifle-shooting in our own day; and much cost is saved by killing in this way two birds with one stone.

§ 6. **Public Exercise of Private Functions.**—This is the converse of the previous point, many payments to public authorities being in fact not payments for the functions of Government, or not wholly so. This can happen in two ways. Governments may step into the place of owners, employers, and parents, and in socialistic fashion act as provider and father. This is expensive; and the rates and taxes levied to meet the expense are not for defraying the functions of Government, either primary or secondary, but for something else. A great part of the English poor-rate and school-board rate is of this character. The other way is where Government undertakes some industrial function, like the supply of water, gas, electricity, sewage works, telegraphs, railways, and postage. Whether such action is desirable we will consider later. Here the point is that the payments are not for purposes of Government, but for something else.

Sometimes it is difficult to reckon accurately how much of a given payment is for purposes of Government, and how much is not. For example, if the telegraphs are carried on by the central Government and the town waterworks by the municipality, and both make a large surplus annually which is devoted to the general purposes of, respectively, national and municipal Government, then, when you pay your water-rate, or send a telegram, you are really paying not wholly for water or telegraphs, but partly for Government. If, on the other hand, in both cases the authorities carry on the business at a considerable loss, then, when you pay other rates and taxes, you are not paying wholly for Government, but partly for the enjoyment (by yourself or by others) of water and telegrams, made artificially cheap by the Government bounty.

From the two points we have been considering, it is clear that when we are reckoning what a Government costs the country, we ought to look closely both to what is done by public authorities, and to what is not done.

§ 7. **Three Ways of meeting the Cost of Government.**—The cost of Government, central or local, can be met in three principal ways, by compulsory service, by compulsory payments, and by the rents or profits of Government property or agency. The first is almost obsolete in the British Isles and the United States (our service on juries is a remnant of it), but conspicuous in Continental Europe in the shape of military conscription, and in the Dutch Indies in the shape of *heerendienst* on useful public works. The second is the method characteristic of England for two hundred years past. The third affords in some countries (like Prussia) a large part of the Government revenue, but is of less importance among ourselves, though now indeed, especially for local finance, of growing importance.

Observe that compulsory payments are not necessarily in money, but may be in kind, which in many circumstances is the wisest and most humane mode of receiving them. Some obligations are a mixture of compulsory payments and compulsory service, for example, the obligation of quartering troops.

An able writer, Mr. Cannan (in the *Economic Review*, October, 1899), takes the view that the compulsory payments, commonly called taxes, are not really payments, but are only the way in which the community in its corporate capacity retains as its own share a portion of the joint-product of the labour of the whole community; the State being one of the original sharers of the income produced.

Now this view may rest on a view of the State unlike that adopted in this volume, and so far lies beyond our field of discussion. But it may rest on a mere question of convenience, whether as a matter of language and book-keeping we take a man's net income (his wages, interest, or profits) and look on rates and taxes as part of his expenditure, or else deduct rates and taxes before we reckon up his net income. As a fact, the former course, adopted in this volume, where justice appears among heads of expenditure (Book I. ch. vii. § 16), is the course adopted in ordinary conversation and accounts; nor is any advantage apparent in the paradox that when I pay income-tax or death duties, I am not making a real payment, but only handing back to the Government its own property.

There are three other important means of defraying Government expenses, only from their nature they are temporary expedients: one is the issue of inconvertible paper currency, the second, the sale of Government property, and the third, the incurring of a public debt; the two last imply in the future either a diminished income or a greater expenditure.

§ 8. **Grave Danger of Over-Taxation.**—While the particular methods of meeting the costs of Government may vary much, and vary rightly, according to times and circumstances, there is a perpetual obligation on Governments in all times and circum-

stances to refrain from laying heavy burdens on their subjects, and incurring expenses which either are not for the general good at all, and exceed the reasonable functions of Government; or else which are out of proportion to the wealth of the country, such as magnificent public buildings drawn from the sweat and blood of a miserable people. And from the sad pages of history we can learn that this unjust overburdening of private resources by public force has been in fact one of the chief causes of misery and ruin; and its prevalence is attested by the prevalence of the popular view that to evade the payment of taxes is neither dishonourable nor wrong.

Amid the many examples of over-taxation, two may be cited. First, the later Roman Empire, where the burden was so heavy that some could bear it no longer, and fled away to the barbarians, according to a famous passage of Orosius, that should be graven in the mind of every statesman: "Jam inveniuntur Romani qui malunt inter barbaros pauperem libertatem quam inter Romanos tributariam sollicitudinem sustinere." As a second example we can take the Italian kingdom of our own day, where it has been calculated that a respectable artisan family of four persons living in Florence in 1890, and earning annually some 2,380 francs, paid as direct taxes 222 francs, as indirect 343, being a total of 565 francs, or more than six times the amount that a family in similar circumstances would pay in England. But this was before our expenditure, local and central, had risen, 1893—1903, from 170 to 300 millions.

At present, in many countries, the danger of over-taxation is due principally to the vast increase of military expenditure, and secondly, to the vast increase of administrative action and of the number of officials, who, for example in France, where they are in great part parasitic, surpass 460,000 persons in number with salaries which nearly doubled in

amount between the years 1875 and 1895, and which now in the aggregate surpass twenty million pounds sterling.

It is indeed an error to think that the less expenditure the better, and to speak with Ricardo of "the golden maxim of M. Say, that the very best of all plans of finance is to spend little, and the best of all taxes is that which is the least in amount." But the pendulum of public opinion has swung to the other extreme; and we must daily bear in mind Professor Bastable's prudent words: "The great and increasing importance of State outlay does not, however, afford a presumption that the movement is advantageous. The current of modern sentiment runs as strongly at present in favour of State action as it did fifty years ago against it, but neither tendency can be its own justification; both have to be judged on the grounds of reason and experience." (*Public Finance*, p. 139.)

§ 9. **Taxable Capacity Different in Different Countries.**—The notion of taxable capacity is of great importance, and is not the absolute limit in each country of what can be extracted from the people by taxation, but rather is that limit of taxation which if habitually exceeded indicates over-taxation. To judge of this limit we must recall the chapter on the theory of consumption (Bk. I. ch. vi.) regarding the limitation of human wants, the distinction of necessaries and superfluities, the meaning of absolute and conventional necessaries and of the standard of life. Then we can lay down that whenever taxation, instead of being drawn

from superfluities, makes an encroachment on absolute or conventional necessaries, and threatens to lower the standard of life, the people are being taxed above their taxable capacity.

It follows that merely to look at the number of inhabitants and reckon taxation per head will not tell us whether a country is over-taxed, nor enable us to weigh the burden. Thus in 1890 the average taxation per head for Russia, Prussia, Italy, England, and France was reckoned in shillings at respectively 14, 26, 31, 42, and 51. But if the taxable capacity had been considered, the probable order of these five countries from the lighter to the heavier taxed would probably have been England, Prussia, France, Russia, Italy. Thus again, looking at taxation per head, we should reach the ludicrous conclusion that about the year 1886 the burden of taxation was nineteen-fold heavier in the Australasian colonies than in India. (Bastable, *Public Finance*, p. 132.)

Not so gross a blunder, but still quite a mistake, is to adopt some percentage of the total income of a country as the criterion of over-taxation, and to say, for example, that as long as no more than 10 or 12 per cent. of that income is taken for purposes of State, there is no over-taxation. In reality, this criterion is unsound, because the same percentage in one country might leave over an abundance of superfluities, in another might encroach upon necessaries. "Expenditure requiring 10 per cent. of the annual income of India would be much more burdensome than if 30 per cent. were to be required

in England or the United States." (*Ibid.* p. 131.) It is not then income simply that is the proper object of taxation, but what may be called superfluous or surplus income, namely, what is available after absolute and conventional necessaries have been satisfied; and the greater this surplus income, the greater the taxable capacity of the country.

CHAPTER II.

PUBLIC OWNERSHIP OR MANAGEMENT.

§ 1. **Public Receipts either Non-Tax Revenue or Tax Revenue.**—Although, as we saw in the previous chapter (§ 7), there are three principal ways of meeting the cost of Government, one of these ways, namely, compulsory service, provides no revenue in any strict sense; but rather enables the Government *pro tanto* to do without revenue. There remain then two kinds of revenue, one the receipts in the shape of interest or profit from Government property or agency; the other the receipts in the shape of taxation. These are the two great historical kinds of public revenue, the second indeed having progressively advanced in relative importance with the growing use of money and credit and the decline of payments in kind, or as the Germans would express it, with the substitution of *Geldwirthschaft* for *Naturalwirthschaft;* though whether this advance will continue is doubtful.

The same broad result is reached by Professor Bastable, only he includes services under wealth, and thus includes compulsory services under taxes. "Military service or forced labour for, say, repairing roads (*corvées*) is taxation quite as much as payment of money or goods." (*Public Finance*, p. 249.) But this seems rather a straining of language, and not in

practice convenient; nor has he a place in his classification of taxes for what should form such an important item among them, namely, military conscription.

On a name for non-tax revenue no agreement has been reached. Indeed any logical classification and clear nomenclature is difficult, because the concrete forms of Government revenue, actually and historically, are so various and intermingled, shading insensibly one into another. Professor Bastable (in the discussion in Book II. ch. i. of his *Public Finance*) used the terms *economic revenue* or *quasi-private receipts* for non-tax revenue; but a more suitable term would be revenue from the *fiscal domain* or *industrial public domain*. The point for the student, however, is to remember that these are minor matters compared with whether the expenditure of the Government is of the right character, or whether the burden of taxation is moderate and fairly apportioned.

§ 2. **Public Property which yields no Revenue.** — Before considering the varieties of non-tax revenue, let us make a separate place for those very important means of enjoyment owned by central or local authorities and yielding in the ordinary sense of the word no revenue. Such are public parks, gardens, museums, libraries, galleries of pictures and sculpture. These means of enjoyment might be called the *non-industrial public domain;* and deserve a name because of the frequent greatness of their value. Thus the treasures of art and science collected at the comparatively small capitals, Dresden and Munich, would furnish if sold a sum many times in excess of the annual revenues of Saxony or Bavaria. As it is they figure on the side of expenditure, not of revenue; the expenditure indeed being one from which the country may receive the maximum of benefit.

In a certain sense we can say that "this part of public property resembles the mansion, demesne, carriages, plate,

and furniture of a rich man, which are only productive of wealth on the breaking-up of his establishment, and otherwise involve him in additional outlay." (*Public Finance*, p. 235.) But this is not the whole truth. For besides higher calculations of public welfare and popular culture which make a difference in the two cases, there is a further purely financial difference, that while the income of the rich man can receive no indirect increase from holding such property, the public revenue may gain a considerable increase, and the possession of works of art and subsidies to music and the drama, by causing an influx of strangers and an increase of residents, may considerably increase the yield of both direct and indirect taxation. Hence as a mere matter of speculation, to close a Court theatre and sell a national gallery would be penny wise and pound foolish. (Cf. *supra*, Book II. ch. v. § 8, on the vast sums brought into Italy by foreigners.)

§ 3. **Varieties of Non-Tax Revenue.** — The sources of such revenue are so varied and intermingled that a rough enumeration under four groups seems better than any attempt at a scientific classification.

The *first group* is all revenue from Government agricultural land, Government including municipal and village authorities, and agriculture including dairy and stock farming.

Historically, this has been an important item of the fiscal domain: much of early Roman history turned on the treatment of the *ager publicus;* again, in the feudal State, with multiple co-sovereignty, each lord according to his degree had to provide out of his own estate the expenses of his share of the Government; again, in Russia, before the emancipation of the serfs in 1861, more than a fourth of agricultural land was crown land; and in the colonial countries of America and Australasia, considerable sums have been received from the sale or lease of public land, though here the chief aim has not been to raise revenue but to attract settlers.

Public agricultural lands are at present in no civilised country a great source of revenue. The apparent exceptions in Russia and British India are not exceptions, because the land in the one case has become and in the other never ceased to be in some sense the property of the peasantry; and thus

the sums levied by the Russian and Indian authorities are not to be held as rent paid by tenants, but as taxes paid by subjects. Some discussion on this point is to be found in Marshall's *Principles*, pp. 729, 730, and Bastable's *Public Finance*, pp. 161, 162; only let us not forget that the matter is a grave one of history, ethics, and equity, in which we may easily be lead astray by the formal doctrines of lawyers and officials.

The *second group* comprises revenue from public forests, mines, factories, banks, or mints. The public ownership of forests is more important to secure their preservation than to serve as a source of revenue. Mines, on the other hand, have sometimes been one of the chief items of revenue, as the silver mines of Laurium for Athens in the age of Pericles, and the nitrate deposits of Tarapaca for modern Chili. Manufactures, especially of army clothing and military stores, supplying currency, and doing banking business, have often been minor sources of income.

It is best to exclude from non-tax revenue certain monopolies in Government hands, like the salt, tobacco, or alcohol monopoly in various countries, such being simply a convenient mode of levying an excise or custom duty on particular goods; and thus really belonging to indirect taxes on expenditure, where they will be treated.

The *third group* comprises local services, in particular the supply of water, gas, electric light and power, sewage works, tramways, slaughter-houses, markets, and harbours. This group, unlike the two preceding, is in process of vigorous growth: "A new public domain, yielding large gross returns, has within the last fifty years become established in most civilised States." (Bastable, *ibid.* p. 188); and though the net revenue is a much smaller sum than

gross receipts, and interest on the debt incurred for these supplies is often a serious amount, still for the purposes of local government they already, especially in Germany and in some of the better governed towns in Great Britain (such as Birmingham, Liverpool, Manchester, Glasgow, Bradford, and Leeds), afford substantial help, and promise to afford more in the future. (See F. Dolman, *Municipalities at Work*, London, 1895, and an address on "Municipal Trading" given in the *Economic Journal*, June, 1900, by J. Harrison.)

The *fourth group* comprises the means of national communication, postal service, telegraphs, telephones, roads, canals, and railways. This group resembles the third in being in great part a modern growth; and also in the great divergence between gross and net revenue. Hence their importance as a financial help to the Government is in general much less than their importance in other respects; the United Kingdom, the German Empire, and France, all indeed derive a substantial net amount from the postal service, and the kingdom of Prussia from its State railways; but in most other cases the expenses, always including in the expenses the interest on any debt incurred for the services, nearly approach and sometimes exceed the receipts.

§ 4. **Objections in general to Public Ownership or Management.**—Against much of Government revenue being in the shape of revenue from fiscal domains, three principal objections have been raised. First, the moral evil, that occasions of jobbery and corruption, or else of harshness and insolence, are

multiplied unnecessarily; secondly, the mental evil, that habits of vigorous private action are weakened, and that there is danger of all talent being concentrated in the service of the State; thirdly, the technical evil, that from the lack of interest in the result, efficiency of production is less, and that indolence, routine, and extravagance are the rule instead of the entrepreneur's eager watch for improvements, economies, and customers.

It is the interest of officials in each department to oppose retrenchment in that department; new inventions open a prospect not of more wealth but of more trouble and possibly less pay; and where complicated industries are undertaken by officials, there is such liability to a defective system of keeping accounts that Professor Bastable speaks of it as characteristic. "The amount of invested capital is hardly ever properly estimated; receipts that should go to capital are assigned to revenue, and expenditure that ought to be met from revenue is defrayed from other State funds or by borrowing." (*Public Finance*, p. 183.)

Other objections are of less importance, for example, the political argument that an abundant fiscal domain may render the executive Government independent of Parliamentary control, by rendering unnecessary the granting of supplies. In certain historical cases this has been a valid argument; but is hardly valid anywhere in our own day. A more important political argument is urged by Bastable (l.c. p. 689), the difficulty of applying the strict administrative control necessary in the case of public expenditure to industrial undertakings: that, for example, the Treasury could hardly keep a Railway Department within bounds.

§ 5. **Cases where these Objections are out weighed.**—These objections have such force as to raise a presumption, if not against public ownership, at least against public management. But even in regard to the last they can be outweighed, as Jevons well pointed out, in cases (*a*) where the operations are so widespread as only properly to be

co-ordinated in a single system, and where there is a vast saving of waste by unity of management; (*b*) where they are of a routine-like character; (*c*) where they are performed under the public eye or for individuals who will detect and expose deficiencies; and (*d*) where there is little capital expenditure, so that the annual revenue and expenditure account represents fairly the commercial condition of the department.

Such cases are pre-eminently the letter and parcel post, telegraphs and telephones, whose management is generally and rightly national. Further examples are the municipal management of gas, water, and electricity, where indeed there is considerable capital expenditure, but this disadvantage is outweighed by the advantages of municipal management in other respects.

Government agency, central or local, is also called for in several other cases because the gain, though sometimes great, is too indirect and remote, or the means of exacting payment too difficult to allow any private agency to undertake the work. Such, for example, are the planting or preserving forests to protect against wind, drought, or flood, constructing lighthouses, harbours of refuge, sea or river dykes, roads, and drains, starting model farms and breeding establishments.

§ 6. **Question of Public Revenue in the Shape of Interest.**—At first sight there seems no objection to a great revenue being received by Government in the shape of interest, such as quit-rents from farming land, ground-rent from houses, royalties from mines, and payment (whatever the legal denomination) from monopolist companies who are working railways, canals, and national or provincial

banks. That some such revenue should be raised both by the central and local authorities is indeed most reasonable; but if the total were very great, it would probably imply either some element of management by the authorities, and thus would be of the nature of profit and fall under the objections already discussed; or else would be so heavy a charge as to discourage the industry and energy of the payers. And in any case a very necessary point to remember is that in proportion as the public domain is increased, the private domain, and consequently the field for taxation is lessened. "A large section of private industry, that would otherwise contribute to the public resources through taxation, has come into the charge of the State." (*Public Finance*, p. 216.) In proportion as private incomes are lessened, the receipts from taxation grow less, and the apparent alleviation of public burdens is illusory.

So Professor Bastable explains: "*A priori* it would seem that the lending of accumulated wealth would be a convenient mode of securing a revenue for the public services, but, as in the case of industrial investments, the test of experience makes it plain that this is really an expensive way of obtaining the necessary supplies, since the principle has first to be raised and is afterwards less productively employed than when left in the ownership of private persons. A true conception of the relation of State income to the national income, which is the sum of all private incomes within the nation, overthrows the fallacy of State accumulation and investment." (*Public Finance*, p. 223.)

Hence the apparently brilliant prospect of the French Government, which between the years 1950 and 1960 will come into possession of most of the French railways and into an income of probably over 25 million pounds a year, is less brilliant when examined. For even granted that the Government without undertaking themselves the management of the

railways (to which, as we shall see, there are considerable objections), and without discouraging the future railway management by allowing them little hope of much profit, can actually credit their net receipts with this vast annual item, they will not have got it for nothing. The fact of railway property having been for so many years only leasehold property has compelled the Government, lest railway development should be checked, to grant subsidies or guarantee profits; and the question can be raised whether the ultimate gain will be a sufficient return for this long-continued outlay.

There is indeed a certain fascination in the thought of a vast public domain as the ordinary source of public revenue, and the absence of taxes (with all their annoyance and frauds), except for an emergency as extraordinary revenue (they were still treated as extraordinary by Blackstone in the eighteenth century); and we may feel inclined to revert to the old historical view, that "the king should live of his own" (Cunningham, *Industry and Commerce*, Vol. I. p. 143), and that taxation should only be supplementary; but this alluring simplicity would be archaic and impracticable.

§ 7. **Question of Monopolies, especially Railways.**—We must not even say that the existence of a practical monopoly is a counter-reason adequate to outweigh the objections to State ownership and management. The real duty of Government towards monopolies (as we have seen, Book II. ch. iii.) is to prevent the abuse of their power, monopoly prices, and discrimination; to secure fair prices, and to compel in certain cases that some less remunerative work (like the construction of branch lines) be carried out in consideration of the monopoly. Thus there are middle courses between a tyrannical unregulated monopoly and the Government itself becoming the provider.

The question of State railways requires careful handling. For military reasons or in a poor country it may be one of the first duties of a good Government to construct them or foster their construction by subsidies, such as a guarantee of interest. There have, indeed, been grave abuses in Government subsidies and concessions, to the profit of contractors and financial agents and the loss of poor rural tax-payers. Thus in Italy, Spain, and Turkey railways have been made meandering like rivers, whereby their mileage has been increased, to the loss of the public, and to the gain of the makers, who were paid so much per mile. But the abuse of Government aid to railway construction does not take away the use.

When once indeed railways are made, there are grave objections to their being worked by the public authorities.

The service is by no means of a routine character, and requires frequent adjustment to new conditions, frequent revision of rates and fares, frequent need of heavy capital expenditure, constant careful distinction of capital and revenue accounts—all points against State management; as well as the fact that a vast army of workpeople would become State servants whom few Governments could control in the efficient manner of the Prussian Government, which deals on an almost military system with its 80,000 railway servants. Hence the acute Jevons pronounced against State railways, and Professor Bastable follows him in spite of the example of Prussia and most other German States, of Russia, of the Scandinavian States, of Belgium, Hungary, and Australasia, where all or most of the railways are owned and worked by the Government. (*Public Finance*, pp. 202—218.)

No doubt indeed the circumstances, political and economic, are so different in different countries, both in regard to the construction and working of railways, that each country, or each group, becomes a special case; and beyond a few vague generalities it is difficult to lay down rules applicable alike to England and Ireland, to Italy and Prussia, to Russia and the United States. The reader may consult the excellent article on Railways by Mr. Acworth in Mr. Palgrave's *Dictionary of Political Economy*. The particular problem of railway rates has been discussed already, Bk. II. ch. iii. § 13.

CHAPTER III.

PRINCIPLES OF TAXATION.

§ 1. **Restatement on the Nature of Taxation.** —Of the two chief kinds of public revenue the one drawn from the public domain (or non-tax revenue) has already been considered; the other kind is taxation. Now as far as a formal definition of a tax is desirable we may accept Professor Bastable's: "A tax is a compulsory contribution of the wealth of a person or body of persons for the service of the public powers" (*Public Finance*, p. 249), and the term public powers must be understood of both central and local governments. "A rate raised by the smallest parish is as much a tax as if it were raised by the Imperial Parliament." (*Ibid.* p. 250.) This seems on the whole the most convenient point of view: namely, to look simply at whether the revenue is or is not raised by compulsory payments; and if it is, to call it taxation. The proceeds may indeed be used for non-political or for injurious purposes; but then it is simpler to say that the taxes are being applied as a bounty to such an industry (as sugar), to such an expenditure (as on education), or again that they are being applied by a tyrannous or corrupt Government, rather than

to say that the payments in such cases are not taxes.

Professor Seligman's classification, emphasising the distinctions of tax, fee, and public price, can be found in the *Economic Journal*, 1896, pp. 81—84.

It should be added that in ordinary language as well as in works of finance there is no fixed use of terms. Thus rates, taxes, fees, costs, charges, dues, and analogous terms in French, German, and Italian, are used variously by various writers and speakers.

§ 2. **Problem of Fair Taxation.**—Taxation to be legitimate, must avoid not only excess, but also unfairness; it must be imposed according to the rules of distributive justice; it must regard not only the general benefit which all receive from Government, but the special benefit that some receive; it must regard the taxable capacity not only of the country as a whole, but of each separate family.

Hence the leading principle of fair taxation is to pay due regard to special benefit and taxable capacity; and this double criterion of justice is well expressed in the following passage from De Lugo, none the worse for being nearly 300 years old:

"In imposing taxes (*in tributi impositione*) we ought to observe geometrical proportion as follows. If the tax is for some need (*necessitas*) not common to all, those ought primarily to bear the charge whose need is met by it; but if it surpass their capacity it should be extended to others, because members of the same body ought to help each other. When the need is common to all, all should be charged with the expense in common, and, as far as possible, equally; namely, in geometrical proportion, those with the greater taxable capacity paying more, and those with less, paying less (*ut ii qui majores vires habent, plus solvant, et qui minores, minus*). Otherwise the distribution of public burdens would display not formal but only material equality, which means the greatest inequality, as if you gave an equal weight to a man to carry and to a child." (*De justitia et jure*, Disput. xxxvi.)

From this passage of De Lugo cited by Dr. Invrea in a masterly article on progressive taxation (*Rivista Internazionale di Scienze Sociali*, June, 1896), it is plain that the notion of taxable capacity is no new discovery, as some have thought, of the nineteenth century. Indeed, De Lugo in the early seventeenth century only gave the traditional teaching of the schools.

Let us now examine the double criterion of fair taxation; first, the principle of special benefit, and this very briefly, because its chief application is to local taxation; and then, secondly, the principle of taxable capacity, and this more at length because of its more general application.

§ 3. **Principle of Special Benefit.**—In those cases of Government expenditure undertaken not for a general but for a special purpose, for the advantage of particular individuals or groups or localities, the principle of special benefit can be rightly applied, and those made to pay who gain special advantage.

This is peculiarly, though not exclusively, applicable to local Government and the costs of making or improving roads, streets, bridges, harbours, quays, the cost of lighting, paving, draining, of water supply, town halls, market buildings, and public gardens. Observe that after the payment is specialised to the locality, the question further arises whether all the inhabitants are to pay or only some; and much of good local Government depends on the proper application of the two principles of taxable capacity and of special benefit, according to the circumstances. The controversies on "betterment" or "special assessment," show how delicate but how necessary is the right application of the principles. See the discussions in Bastable's *Public Finance*, Bk. III. ch. vi., and the interesting lectures by Cannan on the *History of Local Rates*. Mr. Cannan shows how the mediæval principle of taxable capacity (*juxta facultates*) was gradually abandoned;

but concludes, more cheerfully perhaps than the facts warrant, that by rating persons in respect of fixed property in the district, and basing local taxation on that rate, we make the nearest approach possible to paying due regard both to special benefit and to taxable capacity.

Another question, how far the cost of actions at law should fall on the parties and how far on the community at large, is a matter of great interest and gravity, but to be left to political science.

Observe that the principle of special benefit has been distorted into the one principle of taxation, known by such names as the *benefits theory*, the *social dividend theory*, or the *insurance theory*. Such a view, held waveringly by Adam Smith and confidently by many of his followers, rests on the notion of the State being an association for the protection of property; in which case the obvious rule for payment would be to pay according to the amount of property protected.

§ 4. **Principle of Taxable Capacity.** — The principle of taxable capacity is sometimes known as taxation according to *ability* or *faculty*. But we learn little if told to tax according to capacity, unless we are given some measure of capacity. Now a measure frequently recommended is a man's income; not his gross income or his property, but his net income. This gives the simple and intelligible rule of finance, to aim at drawing from every income the same proportion, in the sense of the same percentage, for the public needs. But this *proportional taxation* brings injustice. For income is only an imperfect test of a man's real position (*supra*, p. 18); transitory or precarious incomes ought not to be treated as if they were permanent and secure; the same income implies different taxable capacity, according as the receiver has a wife and children and infirm relatives to support, or has not; finally, as we saw when reckoning the taxable capacity as a whole (ch. i. § 9),

the great difference between absolute or conventional necessaries on the one hand, and superfluities on the other, makes taxation, when simply proportioned to income, a disproportionate weight upon the poor; five per cent. taken from an income of £5,000 involving immensely less sacrifice than five per cent. taken from an income of £50, and considerably less sacrifice than five per cent. taken from an income of £150.

To prevent taxation being thus unfair, and to make it approximate to taxable capacity, or as some express the same idea, to make *equality of sacrifice* approximately equal, we must make the four following modifications of simply proportion taxes on income.

The first is to follow the golden maxim: *primum vivere, deinde tributum persolvere*, and to exempt from taxation so much of income as is required not merely for absolute necessities (*das Existenzminimum*) but also for reasonable conventional necessaries; and thus to confine taxation, as was done at Florence in the golden age of her republic, to superfluous or surplus income (*l'avanzo alla vita*).

The second modification is, in view of the principle of marginal value and the limitation of human wants (Bk. I. ch. vi.), to increase the percentage, levied step by step, as the incomes are larger; but these steps to be ever less and less; and thus the progression to come to an end after a certain point, and all the larger incomes to be taxed at the same rate on the ground that the

wants they satisfy have the same relative importance.

The third modification is to pay due regard to the number of persons the income has to support, in particular, young children and aged relatives; and the fourth modification to make due allowance when incomes are temporary or precarious.

In conclusion, let the sound principle of theologians be remembered, that the geometrical proportion required for the justice of taxation is not to be understood with mathematical exactness, but morally and widely, so that at least it shall not be grossly neglected, and that "in all matters of taxation we can only obtain approximative results." (Dr. Invrea, *ibid.*) The steps of a graduated tax are in no accurate correspondence with taxable capacity, but still are the nearest approximation available. An abatement of taxation on the ground of small children is in no accurate correspondence with necessities; a sick child may occasion five-fold the expense of a sound child; but the abatement is the nearest approximation available.

§ 5. **Explanation on Progressive Taxation.**—To make clearer the second modification named above, the following figures may serve, not as a proposal, but as an illustration. Let a minimum income of £50 be exempt from any taxation. Of income above this, let the first £50 be held to be more necessary to the holder than the second; and the second than the third; and so onwards, the extra necessity continually diminishing, but ever by smaller steps, till we soon come to the point when it can be practically disregarded. The income-tax will therefore be what is sometimes called *degressive taxation*, a uniform rate being fixed for large incomes, but gradually lessened for the smaller, and a minimum being wholly exempt; all of which will be best understood by the following table:

Total income.	Taxable income.	Rate of taxation.	Amount of taxation.
£10,050	£10,000	7½ per cent.	£750 0s.
1,050	1,000	7½ ,,	75 0
600	550	7½ ,,	40 15
500	450	7 ,,	31 10
400	350	6 ,,	21 0
300	250	4½ ,,	11 5
200	150	3 ,,	4 10
100	50	1 ,,	0 10
50	0	0 ,,	0 0

Here the income exempt is £50; the income-tax on the surplus is 7½ per cent., with a reduction of ½ per cent. if the surplus is below £550; of 1½ per cent. if below £450; of 3 per cent. if below £350; of 4½ per cent. if below £250; and of 6½ per cent. if below £150.

Observe that no agreement has yet been reached on the use of the words *progressive* and *graduated*. In this volume no distinction is made between them, and they are used in the wide sense of any higher percentage being levied on larger income or larger estates. A more precise and elaborate nomenclature is suggested by Seligman on "Graduated Taxation" in Palgrave's *Dictionary of Political Economy*.

§ 6. **Objections raised against Progressive Taxation.**—First, it is said to be arbitrary, no intelligible reason being assignable for one scale of progression rather than another.

This objection is valid if the aim of the progression is not to equalise sacrifice but to equalise property, and to use taxation as a means of introducing socialism. Then truly the upward rate of progression has no bounds except the fear that the rich may withdraw their wealth from the country or draw their swords in self-defence. But as against moderate graduation, especially in the shape of *degressive* taxation, the objection cannot be sustained. The reason for the particular scale adopted is the intelligible reason that it is the nearest approach to fairness based on a due regard to needs and capacities. We cannot, indeed, attain exact,

only approximate justice (as already explained); but we must not therefore call the scale arbitrary; for then we should have to call nine-tenths of judicial awards and sentences arbitrary.

Secondly, graduated taxation is said to be injurious to national wealth, either by inducing the rich, whose savings it discourages and absorbs, to indulge in reckless consumption, or still worse to emigrate with their capital.

This objection, like the last, is valid against excessive and unlimited progressive taxation, but scarcely touches that moderate degressive taxation of which the aim is equality of sacrifice.

Thirdly, graduated taxation, it is argued, gives rise to manifold evasions, much increases the likelihood of fraud, and thus is far less productive of extra revenue than might have been anticipated.

This objection is more serious than the others because it applies even to moderate degressive taxation, the various scales of charge giving more opportunity for evasion or fraud than when there is uniformity. But we must not exaggerate the difficulties; every income-tax, even simply proportional, has to battle with false returns, and the addition of graduation in the shape of degression does not make the difficulties very much greater. They can be partly met by increased care in the technical methods of levying the tax; and the extra and sometimes fruitless trouble involved is a less evil than an easy acquiescence in injustice.

Let it be well observed however that in particular cases, where the technical methods of carrying out graduated

taxation are ill-chosen, or the organs corrupt, fair-seeming schemes of graduation may be injustice in disguise. In fact, it may be a means used by the speculative, urban, and financial classes, whose incomes and property are so easily misstated and concealed, to shift still more the burden of taxation from their own wealthy shoulders to those of the overburdened and impoverished rural classes.

§ 7. **Subordinate Principles to be regarded in Taxation.**—Although the main criterion of justice in taxation is two-fold, the due regard to special benefit and taxable capacity, certain other principles deserve also, always in due subordination to those first named, to have a share in our regard, and we must glance at the mistaken theories of which they form the ground.

Thus the theory of professional charges or *cost of service* is that just as a surgeon, solicitor, or surveyor charge for their services according to the work done: so the Government should charge each subject according to the work done for him, that is, according to the expenses to which he has put the Government. This theory recognises rightly that there are certain functions fulfilled by Government authorities for which particular persons or groups of persons ought to be charged, as causing the particular expense. The distinction of local from general taxation partially rests on this principle; and we might apply it with advantage to our criminal classes, making them work out where possible the costs of their imprisonment. But to make it the basis of taxation is impracticable and fallacious. Often where expenses can be ascertained, those who have caused the most, say a pauper criminal lunatic, can contribute the least; and above all, the greater part of public expenditure is such, that no one can ascertain how much of the expense is caused by any particular individual. Nor does this matter; for the State is a necessary society, and for the common good; and implies that the strong and upright shall help to bear the burdens of the fallen and the weak.

Another theory is the *politico-social* conception of taxation as a means in the hands of a wise and beneficent Government of redressing inequalities and suppressing abuses. This is pre-eminently the theory of the German State-worshippers known as Socialists of the Chair, and has its ground in the

truth that a good Government will strive to remove any oppression, suffering, or demoralisation caused by any actual tax, and will gladly use its power of taxation, like any of its other powers, to promote the wealth of the nation, to hinder misdirected production and misdirected consumption, and to foster the multiplication and preservation of small properties. But to use the power of taxation as a means of gradually abolishing all inequalities of fortune, instead of turning those inequalities to good purpose, is State-socialism under the garb of humanity.

At the opposite pole to the previous theory is one that may be called *conservative*. It approves the maxims that "every old tax is good, every new tax is bad" and that "an old tax is no tax;" hence no changes should be made in any existing and long established system of taxation; and if new public revenue is needed, the aim should be so to impose the new taxes that individuals should be left in the same relative position as before. This theory is right in distinguishing old taxation from new. To a certain extent inequalities of taxation by mere lapse of time become akin to inequalities of property, and become legitimate by prescription. Also to a certain extent an old tax by its very age becomes akin to revenue from the public domain. Therefore to make a clean sweep of historical rights, exemptions, privileges, and inequalities, is not a consequence but an abuse of the theory of taxable capacity; and in applying the theory we must not disregard the previous history of the country. But to do this does not mean that we are to bolster up old abuses, like the shameful exemption of mortgagees and other creditors from taxation in Austria (Dr. Kämpfe's German translation of this work, p. 448), and to perpetuate oppression, penury, fraud, or depraved consumption due to a system of finance, on the plea that it is an old system. This is the grave defect of the conservative theory; and moreover its rule for this new taxation, unless interpreted to mean equality of sacrifice, seems inapplicable or unfair.

§ 8. **The Opportunist Theory of Taxation: Doctrine of Diffusion of Taxes.**—This theory excludes justice from financial problems, and bids the Government take what it can get easiest, and thus impose such taxes as are most easily assessed and collected, and will be the least obstruction to national wealth. Such opportunism is made plau-

sible by the doctrine of the universal *diffusion of taxes* (called also their shifting, transfer, or repercussion). In virtue of this diffusion, though taxes as a whole might be too heavy, they could never be unequal, no one ultimately burdened more than any one else, for the simple reason that prices, wages, profits, and rents would be readjusted according to taxation. This injustice or inequality could at worst be only temporary, pending the readjustment; and instead of the dangerous and futile pursuit of fairness or equality, the wise statesman should aim at the taxation that would check production least, and would press lightest on the nation taken as a whole.

This theory, seductive and optimistic, is right in emphasising the importance of the incidence of taxation, that the immediate *payer* is not necessarily the same as the *bearer*, that shifting is to be expected and allowed for: but wrong in supposing a world of perfect mobility and free competition where shifting would level all inequality. And while right in indicating that all taxation must come from the sources of income, that where the poorer classes have nothing wherewith to pay, then, though you may seem to be drawing taxes from them, you must really be drawing them from some one else: the theory is wrong in not seeing that precisely new taxation may be shifted to the most helpless, forcing them to extra toil and penurious living, and may reduce them to the state of having nothing wherewith to pay.

§ 9. **Note on the Shifting and Incidence of Taxation.**—This difficult question is well treated by Prof. Bastable in

Bk. III. ch. v. of his *Public Finance;* and more at length by Prof. Seligman in a special volume, *The Shifting and Incidence of Taxation.* (New York, 1899.) The term *shifting* is used to express the process of the transfer of a tax to another person, and the term *incidence* to express the result of shifting, namely, the settlement of the burden on the ultimate taxpayer. *Evasion* of a tax is not the same thing as shifting; for as far as it is evaded, by smuggling for example, or by false income-tax returns, the tax is not paid at all; whereas in the case of shifting it is paid, and then the payer virtually recovers it from another person, either by paying him less in consequence, or by charging him more. Cf. Nicholson, *Pol. Econ.* bk. v. ch. x. on Incidence.

How far particular taxes are liable or meant to be shifted must be considered in the next chapter: here we are concerned with shifting in general.

Let us begin with Professor Cohn's summary: "There will be more shifting (*Ueberwältzung*) the clearer the sense of being unfairly burdened, the stronger the will to shake it off, the greater the opportunity given by the economic surroundings for shaking it off. Hence taxes can be shifted by large employers more easily than by workmen; by well paid and organised workmen more easily than by the others; by combined more easily than by single entrepreneurs; by owners of movable capital more easily than by owners of immovable capital; by men regularly 'in the trade' more easily than by outsiders or amateurs; by traders more easily than by the consumers who purchase from them." (*Finanzwissenschaft,* p. 311.)

Similarly, Prof. Bastable sums up "that with perfect mobility taxation will be shifted from producer to consumer, that with strict monopoly it will remain on the producer, and that in the various intermediate positions either result is possible, but a compromise is most likely. . . . In fact . . . there is a struggle between producer and consumer, each striving to throw the loss on the other, and much will depend on the relative strength of the parties. . . . In modern society products pass through the hands of several distinct classes before reaching the consumer, and the struggle of buyer and seller will be repeated at each separate stage. The existence of monopoly or of some form of limitation at any point may prevent the shifting passing any further. An economically strong intermediate group may throw a charge back to the producer, send it forward to the consumer, or divide it between both." (l.c. pp. 348—350.) Of this last truth, England has given of late years a striking example how meat salesmen, millers, brewers, and licensed victuallers have

shifted various taxes to the farmers on one side, and to the consumers on the other.

One principle indeed might seem clear and helpful, that a tax on *differential gains* or "economic rent" cannot be shifted, as they are price-determined, not price-determining. But then the difficulty meets us of deciding what particular concrete tax is a tax on any differential gain. For such gain is an economic category or notion; and taxes are levied not on notions but on the particular goods of particular persons. Hence an actual tax on farm rent or house rent may or may not be a tax on differential gains, and no tax-gatherer will excuse us on the ground that we are receiving only two or three per cent. on our outlay or on our purchase money. Similarly "profits" as an economic notion is not the same thing as the concrete objects of taxation under Schedule D of the English Income Tax. Hence, quoting Prof. Bastable once again: "To pretend to say where, *e.g.*, a tax on profits will fall without possessing further data is as vain as to seek to determine the space traversed by a moving body whose initial velocity and period of movement are both unknown." (l.c. p. 361.)

Let us not however rashly conclude that all our efforts after fair taxation will be frustrated by unascertainable shifting. On the contrary, we can ascertain much about the incidence of particular taxes if we recognise that each is a particular study; we can prevent much unforeseen and unintended shifting if we adopt the humane laws on debt and the reasonable laws on fair prices and on responsibility already urged in this volume; and we can escape much of the difficulty if we avoid imposing taxes of which the incidence is uncertain. Let us listen to the advice of Prof. Seligman:

"Choose primarily those taxes the results of which can be foretold with some degree of accuracy; at all events take some taxes where the chances of shifting are very slight, and take on the other hand taxes which will be shifted in their entirety. In the former class are included certain taxes on monopolies, net profits, inheritances, and definite forms of property and income. In the latter class are included taxes on commodities in the shape of import duties, certain excise taxes and licences, and taxes on gross receipts of corporations. . . . If neither one nor the other kind of taxes suffices for the public revenue, the legislator will be compelled, as is often the case, to resort to taxes, the incidence of which is more uncertain, and where the intention of the legislator may be entirely frustrated." (*Shifting and Incidence of Taxation*, 313, 314.)

The last sentence indeed invites the comment that the legislator should be "compelled" to keep to the two first kinds of taxes; that the evil of resorting to the third kind is a fresh argument against over-taxation; and that such resort in nine cases out of ten is no case of grave national need and of the principle *salus populi suprema lex*, but rather the issue of folly or greed, of public frenzy or private ambition.

§ 10. **Technical Canons of Taxation.**—Besides the rules of justice and morality that taxes be *fair* or equal, and also *moral*, that is, not causing demoralisation by occasioning fraud, there are certain technical rules or maxims to be remembered: namely, that as far as possible a tax be *fruitful*, yielding a large return; *certain*, in order that you may know exactly your liabilities; *convenient*, being levied at the time and in the manner least troublesome to the payer and least exposing him to annoyance by the officers of the law; *inexpensive*, that is, with small costs of collection; *self-adjusting*, that is, rising of itself with growth of wealth and population; *uniform* in yield, so that the finance minister may know how to frame his budget; *elastic*, that is, easily able to be raised in an emergency and again reduced; *innocuous*, that is, causing no serious damage to any valuable industry or enterprise; and *straightforward*, falling on the shoulders it is meant to fall on.

How important is the last canon of straightforwardness can be estimated by the previous discussion on shifting and incidence. The four famous maxims of taxation given by Adam Smith (Bk. V. chap. ii. Part II.) correspond to those respectively named above as fair, certain, convenient, and fourthly, inexpensive combined with innocuous. These four maxims deserve neither the great praise nor the great blame they have received. Professor Bastable gives the

following six: that taxes be productive, economical [= inexpensive and innocuous], justly distributed, elastic, certain, and convenient. He adds a wise warning against neglecting either the moral or the technical aspect of taxation:

"An escape from the difficult questions that the problem of justice must always present is a pleasing prospect, though unfortunately based on illusion, since injustice in distribution is certain sooner or later to show itself in the very difficulties that the practical financier wishes to avoid. All the conditions of a good system of taxation are interdependent, and the breach of one reacts on the other. The observance of the mere technical rules at the expense of justice will not be successful any more than the utmost straining after fairness without regard to the other conditions." (p. 314.)

CHAPTER IV.

DIFFERENT KINDS OF TAXES.

§ 1. **Classification of Taxes.**—There is no general agreement on this matter, which is rather one of convenience than of principle. The most convenient classification seems first to distinguish *real, impersonal, or objective taxes*, where the tax is levied on particular goods irrespective of the personal conditions of the owners, from *personal or subjective taxes* where the income or property of a particular person is the object of the tax; and secondly, to distinguish *direct taxes*, where the payer is the person intended to be the bearer of the tax, from *indirect taxes* where the payer is meant to shift the tax to some one else.

The distinction of direct and indirect taxes is sometimes used in other senses; but this sense, which is that employed by Mill, is the most common. The distinction of real and personal taxes is in no conflict with the truth that all taxation must be imposed on persons. For though the bearer or *subject* of taxation can only be a person, the *object* of taxation can only be property; and while in the case of a personal tax the Government looks primarily to the subject, it looks in the case of a real tax primarily to the object.

Then let us make five chief heads of taxation: I. Impersonal taxes on property or produce. II. Personal taxes on capital or income. III. Direct taxes on expenditure. IV. Indirect taxes on expenditure.

V. Taxes on occasions, notably on contracts, on deaths, and on the performance of Government functions on account of particular persons.

Various classifications, his own among them, are given by Professor Bastable, *Public Finance*, Bk. III. ch. i. He treats house taxes under taxes on capital or business, whereas here they are treated under direct taxes on expenditure.

§ 2. **First Head of Taxation: Impersonal Taxes on Property or Produce.**—In many countries a great proportion of the revenue, notably in China and India, is drawn from taxes of this kind, and among ourselves the bulk of local taxation. Their character depends on many circumstances. If they are a permanent settlement for a fixed sum, like the English or Bengal land tax, they come by lapse of time to have something of the character of a part of the fiscal domain instead of a regular tax, and they obey most of the maxims of taxation given at the end of the last chapter. But they utterly fail in two points, being neither self-adjusting nor elastic. Hence they cannot suffice for a growing society, nor be of avail for an emergency. If, on the other hand, they vary, we escape one trouble to fall into another. If varying simply with the produce (like tithes), they discourage improvements and thus are no longer innocuous, and also cease to be uniform, inexpensive, and moral, though probably fair. And if they vary according to the supposed average annual income drawn from the property and its consequent value, then the fairness becomes dubious, as the personal condition of the payer seems in this case to need attention. Besides, we meet the great practical

difficulty of ascertaining the amount and variations of value. We may adopt the Continental plan of an elaborate survey and register, or *cadaster* of property —a Domesday Book; but this is so expensive if it is to be efficient, implying a well-paid staff of officials perpetually revising the cadaster, that it is likely to be inefficient, and at any rate requires to be supplemented by local valuations strictly on the letting value (Bastable, p. 401); while the English system of rating property is irregular, uncertain, often unfair, and could hardly work in a country where letting and hiring of lands and buildings were not very prevalent. Above all, these taxes in commercial times and with elaborate systems of banking are liable, as many examples have shown, to become an unfair burden on the nominal owners or occupiers of immovable property, such as land and buildings, while those who, on the principle of equality of sacrifice, are as well able to pay, such as merchants and dealers, bankers and money-lenders, mortgagees and annuitants, in part or wholly escape.

The general property tax common in the United States is a good illustration of the historical dictum: "personal property slipped out of assessment." (Bastable, p. 437.) Thus in New York State in the three years, 1869, 1875, and 1885, the real property was assessed in million dollars at respectively 1,532; 1,960; 2,762; but the personal at 434; 407; 332. Again, at Cincinnati in 1868 the assessed value of real and personal property was about the same, 68 million dollars. But in 1892, while the reality had risen to 144 million, the personalty had sunk to 44. No wonder if good authorities denounce the tax as the worst known in the civilised world, and the system as a school of perjury. (*Ibid.* pp. 441—443.) But observe that most of the objections fall away in the case of a simple society, almost wholly rural, with extensive, not intensive agriculture, and where property is so plain that

assessment is easy, such as the English colonies in North America in the eighteenth century, or England itself in the fourteenth.

§ 3. **Second Head of Taxation: Personal Taxes on Capital or Income.**—These taxes seem at first sight most fair, and have many advocates, especially an income-tax, as alone securing an equality of sacrifice. And undoubtedly for new taxes the greatest equality would be reached by an ideal income-tax, charged strictly on net and not on gross income, for example, making due allowance for repairs; exempting the minimum revenue needed for decent existence; assessed on the principle of *degression* (*supra*, p. 598); reduced for each head of a house in proportion to the number of persons, like young children, dependent on the head; duly regarding the difference of permanent and secure, from temporary and precarious incomes, by taking a greater percentage from rents and interest than from profits, and from profits than from wages; an income-tax, finally, assessed and collected without serious fraud or error.

Unfortunately this last condition, which is almost an impossible one, renders it hard to fulfil the others. The hidden, varying, and complicated character of many incomes in a commercial country makes accuracy hopeless. In such cases the temptation to defraud the Government is irresistible, and this gives rise to vexatious inquisitions, which are often in vain, and thus make the tax unfair as well as demoralising. Probably, indeed, these difficulties are so far capable of reduction, that we can retain a

moderate and one-sided income-tax, and balance the inequalities by other taxes. But to make it the one tax (*impôt unique* or *single tax*) to defray the expenses of central, and even as some wish, of local Government, would be the height of unfairness.

To minimise the tax-gatherer's inquisition and the tax-payer's evasion Bastable recommends "the dealing with each separate part of income, the combination of declaration and official control, and above all the use wherever possible of taxation as the source of revenue, so characteristic of the English method." (*Public Finance*, p. 457.) This *stoppage at the source* is the plan of levying the tax directly from business companies and from the bank that pays the interest of public debts; and leaving to the companies and to the bank the work of deducting the tax from the innumerable payments of dividends and interest due to shareholders, creditors, and fundholders.

§ 4. **Third Head of Taxation: Direct Taxes on Expenditure.**—These taxes are applicable to the enjoyment of *durable* goods that are not easily concealed; the chief by far being a tax on dwelling-houses. This tax is very common, and has been praised as really constituting a fair income-tax, on the ground that expenditure on a dwelling-house is a fair criterion of income. But even were it so, this expenditure is no easy matter to ascertain, and in fact the criterion is grossly unfair. For (*a*) in the same country the cost of dwellings are very different in different parts, and thus to get the proper accommodation for a man's household, much more must be paid in one place than another. Also (*b*) those who disregard this proper accommodation escape a great portion of the tax, which thus is demoralising, fostering hotel and lodging-house life, and discour-

aging a form of expenditure that we should much rather seek to encourage. Demoralising also is the further unfairness (*c*) that large families are grossly over-burdened by this tax. Unfortunately a tax on houses is by comparison so easy to exact and so impossible to evade, that it is a favourite resource of Governments. A distinction, however, must be drawn if the tax is used for local purposes; and as the principle of special benefit is mainly applicable here, and the owners and occupiers of houses are the main gainers from local expenditure, it is fair they should be the main payers. They are in fact the mainstay of English local finance. The difficulty, however, is that the owner and the occupier are so seldom one and the same person; that the landlord may be split into two persons with different interests, the owner of the site and the owner of the building; and that it is a hard problem to make these different parties contribute in fair proportion to the benefit each receives from local expenditure. Probably the best solution is indirect, namely, by the adoption of the reforms already urged, such as the responsibility of owners and employers for the decent habitation of their workpeople, the bridling of monopolies or monopoly prices, and the security of homes from seizure.

The taxes on houses and buildings, or in American phrase on city real estate, are only direct taxes on expenditure when, like the English Inhabited House Duty, they are levied on the occupier of a dwelling-house and not intended to be shifted. If applied to business premises like shops or factories, and meant to be shifted to the consumers of the produce of the business, they are indirect taxes on expenditure. In other cases they are either an impersonal tax on

property, or like the English Schedule A of the Income Tax, a personal tax on income. But under whatever head we treat them, if we treat them together, their incidence will appear varied and uncertain, affected by the prosperity of business, the increase of population, the supply of houses and ground, the legal forms of ownership, the local habits, and much else; and is in fact one of the most confused and disputed problems of economics. See Bastable, l.c. pp. 419, 420, and Seligman, *Shifting and Incidence of Taxation*, Part II. ch. iii. 2nd Edit.

§ 5. **Fourth Head of Taxation: Indirect Taxes on Expenditure.**—These are often called *taxes on commodities*, and can roughly be divided into *excise duties*, or taxes on the manufacture or sale of particular goods, like tobacco or whiskey; *customs*, or duties levied on the import or export of goods, and internal *transit duties*. The latter are very important in some countries like France or Italy in the shape of *octrois* or dues levied on goods entering towns, and much of local taxation there is met in this way. In the United Kingdom the first two are alone important, and of such importance that more than one half the revenue of the central Government is drawn from them.

As already observed, many productive Government monopolies are really indirect taxes on expenditure, and are not to be reckoned as part of the fiscal domain, but simply as the cheapest way of levying an indirect tax on a particular commodity; such, for example, is the salt monopoly in Austria, Italy, and India, the tobacco monopoly in Austria, Italy, France, and Spain, and the opium monopoly in India; the general conclusion being that *if* a heavy tax is to be levied on a particular article, a Government monopoly of its manufacture or sale is often the best way of levying it. (See Bastable, in the *Economic Journal*, June, 1891.) Observe that licences to exercise *particular* trades are akin to excise duties; but a *general* tax on sales or on the exercise of trades, like the *patente* tax of France (described by Bastable, *Public Finance* pp. 426–429), is of the nature of an income-tax on traders.

These indirect taxes, extolled in the earlier part of the nineteenth century as the modern mild and civilised form of taxation in contrast to harsh, semi-barbarous and mediæval direct taxes, came later to be denounced as a grossly unfair burden on the working classes, and inconsistent with popular rule. Both views were exaggerations and treated a complicated question as though it was simple.

§ 6. **Objections to these Taxes.**—Under certain conditions such taxes violate most of the maxims of taxation: are *not* straightforward, often ruining traders and producers instead of being shifted, as they are supposed to be, to consumers; are *not* innocuous, hampering industrial processes, so as to make it easy to collect the duty, or diverting industry by protective laws into less fruitful channels; are *not* flexible, for they cannot be raised in an emergency, according to the saying of Swift that in the arithmetic of the customs two and two sometimes do not make four, but only one; are *not* inexpensive, but the costliest of taxes, needing, reform them as you will, an army of revenue officers to levy them; are *not* moral, because they foster smuggling and illicit production; and, as the head and front of their offending, are *not* fair: not fair (*a*) to small producers and dealers less able to shift or await the shifting of the tax, and more inconvenienced by the conditions of production and sale imposed by the revenue officers; not fair (*b*) to the poorer classes, because the proportion of their income spent on articles of general consumption (which must be taxed, if these taxes are to be of

financial importance) is much larger than the proportion spent by the rich; not fair (*c*) to large families, who must spend more on these articles than small families with exactly the same income. And to say that these taxes are voluntary because you can escape by not using the taxed article, though true of unusual and fanciful superfluities, is misleading if applied to articles, like tobacco, of general consumption; and if applied to articles of practical necessity for a decent life, is a cruel mockery. Nor can injustice to the poor be mitigated by *ad valorem* duties, that is, by duties regarding not quantity but value; for this means an inquisition into quality, which often presents great technical difficulties; and the extra equality, even if obtained, would be dearly paid for by the tax becoming more demoralising, more expensive, and less certain. And if in order to minimise both the unfairness to small producers and the great costs of collection, customs and excise are levied, as in England, on only a few goods, then the unfairness to the poorer classes in general is all the greater, because most of the superfluities of the rich must go tax free.

§ 7. **In some Cases lose their Force.**—The foregoing objections lose their force or are outweighed in certain cases. *First*, where such taxation serves to check misdirected consumption, notably the abuse of intoxicating drinks. The reforms needed in the English law have already been sufficiently explained (*supra*, Bk. I. ch. vii. § 21): the point here is that a great part of the Government receipts from drink are a burden on no one; for were the money left,

as the saying is, to fructify in the pockets of the people, it would be so used as to impoverish, not to enrich them. *Secondly*, in those cases (*supra*, Bk. II. ch. v.) where protective duties are to be desired, the increase of national wealth outweighs the inequality of these taxes; the inequality moreover can be partially smoothed down in the apportionment of other taxes. *Thirdly*, where from either of the two foregoing grounds, or for other reasons of State, imports and exports are examined, the Government incurs little extra expense of collection, inflicts no great hardship, and gains a great revenue, if it can find articles which are not, like bread, salt, soap, dairy produce, or oil, of prime necessity, but are yet of general consumption like tea, coffee, sugar, and tobacco in England, besides spirits and beer. The duty, indeed, on such objects may be oppressive by being too high; for example, the poor man's pipe is far too heavily weighted among ourselves; but the great convenience in paying these taxes, instead of having to face the rigorous visitation of the tax-gatherer, is so great a boon to so great a number, as to outweigh the undoubted inequality; which also, as already said, should be smoothed down in the apportionment of other taxes. *Fourthly*, this inequality in a great measure evaporates after a sufficient length of time: and thus the abolition of old duties, whether import, excise, or octroi duties, is to be judged on other grounds than the imposition of new ones: and it is not to be urged on the ground of fairness, but only on the ground of being a heavy burden to the poor, or

a source of demoralisation, or too expensive to collect.

§ 8. **Fifth Head of Taxation: Taxes on Occasions.**—Three principal kinds deserve attention. First, *charges* for particular work of a *political* character done by Government on account of particular individuals, the charge being in some proportion to the expense, for example, fees of court, fees for registration of birth or marriage, and judicial fines. But though the proper regulation of these charges is a serious problem for political science, they are of less importance from the mere financial point of view, quite unlike the two remaining kinds of taxes on occasions.

How to name and describe these charges is an unsettled question. *Fees*, *costs*, and *charges* are the words we commonly use as distinct from rates and taxes. But whatever names we use, the point is to keep such payments distinct from others which are quite different, though both may be raised by the same technical method, namely, by the compulsory use of *stamps*. Thus the Government may undertake some non-political function like letter and parcel postage, and be paid in the shape of stamps; or may raise indirect taxes in the shape of stamped licences; or may raise, as we shall see immediately, a great and general tax on transfer of property by the compulsory use of stamps. But such payments being either for non-political services, or else bearing no proportion to the expense caused or the benefit received, are quite distinct from charges as defined above.

§ 9. **Discussion on Death Duties.**—These are duties imposed on succession to property after death, and often known as taxes on succession, or inheritance taxes; and are the second chief kind of taxes on occasions. In several countries they are of great amount, and in the British Isles under various titles yielded about a tenth portion of the

Imperial revenue previous to the Finance Act of 1894, since which time their yield has been much greater. Such duties have much to recommend them from their conformity with the technical maxims of taxation, being straightforward, elastic, fairly uniform, self-adjusting, inexpensive, and certain. And it is hard to prove that they injure production more than any other tax of a similar amount; for if they tend to reduce the scale of industry carried on by individual families or firms, they tend also to cause a larger proportion to be carried on by joint-stock companies. But where they fail is in fairness, the heirs or legatees paying alike whether they be rich or poor, infirm or capable. Again, if the tax is only levied where the property passes to strangers or to distant relatives, it will yield little; if, on the other hand, it is extended to near relatives, then the very occasion of taxing the family, namely, the death of its head, is often an occasion of a grave loss of family income, the salary, pension, or professional earnings of the deceased being at an end, and almost always an occasion of heavy medical or funeral expenses. Such taxes therefore cannot be approved, at any rate in regard to small properties, unless they exempt altogether, as in Prussia, all successions of near relatives, to whom nothing should be charged except the bare cost of the legal formalities needful in civilised societies at every transfer of ownership; and even this, if the property is very small, should be defrayed out of other taxes.

The case indeed may be different in regard to large properties. For death duties may be so arranged as to reach personal property that might else escape its fair share of taxation; and serve as a rough means of collecting arrears of evaded income-tax. So Professor Bastable speaks of them as "a capitalised income tax levied only on accumulated wealth, and sparing those comparatively temporary parts of income that result from personal exertion." (*Public Finance*, p. 553.)

The Finance Act of 1894 fails as a means of bringing up the contributions of slippery personal property—of the commercial and speculative classes—to the proper level, and thus is unfair to the holders of reality, especially land. Again, exactly the same Estate Duty is levied whether the estate is to be divided among many children or among few. But the great merit of the Act is the application of the principle of *degression*. The total exemption from duty ought indeed to be placed much higher, but otherwise the degressive scale is highly commendable. It is true there is great hardship if two deaths occur at a short interval in one family; but this perhaps can be met by life-insurance.

It is true, moreover, that death duties have been rendered suspect by the praise of writers like Mill with no appreciation of the unity and importance of domestic life, no understanding of the Christian family; and by the advocacy of socialists, like the proposal of the Saint Simonians to make the State the universal heir. But all human institutions can be abused; and the moral is not to abolish death duties, but to take peculiar care that our own be of the right quality.

§ 10. **Taxes on Contracts.**—These are the third chief kind of taxes on occasions, for example, the taxes levied in the shape of stamps on conveyances, on leases, on indentures of apprenticeship, on bills of exchange, on cheques, and on receipts. In France the gigantic sum of eleven or twelve million pounds is annually raised from this kind of taxation; among ourselves not much more than a third of that sum. These taxes, as far as they can be judged in the lump, by no means conform like the death duties to the technical maxims of taxation: are often, for example, not straightforward, being uncertain in

their incidence; often not innocuous, hindering the sale of small plots of land; while they equally offend against fairness, being levied in total disregard of the circumstances of the payers, and in fact often falling on persons in sore necessity at the crisis of their necessities. *See* APPENDIX T.

Professor Bastable notices the two views, that duties on the transfer of property, land in particular, fall wholly on the seller or wholly on the buyer ("consumer"), and himself argues that they are divided: less eager buyers and sellers are cut off, and there are fewer dealings at a higher price, the tax being included in it. (*Public Finance*, p. 547.)

We may assent to this, always assuming that there is a *market* for the property in question, in other words, that sales are frequent, public, and not subject to monopolists (single or in a ring), and that consequently a *market price* will be generated. But in the frequent case of non-market prices, the incidence of the tax is more difficult to ascertain.

Observe that some taxes on contracts, like those in Germany on Stock Exchange speculations, or the English stamp duty on bills of exchange, can be justified as a set-off to the imperfect payment of the income-tax by the commercial classes. But this does not affect the irrational and unfair character of this branch of taxation taken as a whole; and the probability that among the owners of property precisely the poorer and weaker will in proportion pay the most.

Mark as the issue of this brief survey of taxation how great the probable, even inevitable, hardship, injustice, and deception accompanying many kinds of taxes; how cruel therefore the pressure of over-taxation; how urgent the need of reducing the expenditure of the Government to conformity with the resources of the subjects.

CHAPTER V.

PUBLIC DEBTS.

§ 1. **Character of Public Debts.**—The need of restraining the reckless expenditure of Governments is all the more pressing in modern times because of the vast development of Government borrowing, which means a vast development of taxation in the future. The nature of such borrowing we have already examined (Bk. II. ch. xi. § 2), and seen how it implies a particular direction of national wealth and labour, and the formation of a multitude of annuities payable out of the public revenue; and also implies, if there is to be much of it, a widely extended system of banking. We have further seen how this borrowing has caused a mighty increase in the proportion of income that takes the form of non-industrial interest (Bk. III. ch. i. § 3); and how among the various and complicated causes affecting rates of interest in commercial centres, the vast borrowing by public authorities for non-industrial purposes, is one that tends to raise the rates, especially the rate on securities (Bk. III. ch. iii. § 11); and that in countries inhabited or controlled by Europeans, and under the modern system of

banking, we reckoned the non-industrial interest at over three hundred million pounds a year.

A large portion indeed of public debts, principally but not exclusively the debts of local authorities, is of a different character, being incurred to obtain revenue-yielding property; and the annual interest of this portion has not been reckoned in the three hundred millions named above, being of a different character, namely, industrial interest. How far it is desirable for central or local Governments to possess a fiscal domain yielding profit or interest, has been considered in chapter ii. Here it is sufficient to notice "the fundamental difference between two classes of debt, the one contracted for non-economic [non-industrial] ends, the other for purposes of reproductive employment. War and public works . . . belong respectively to the different classes, . . . the great addition to the French debt from the war of 1870–71 cannot be regarded in the same light as the indebtedness of Prussia and other German States for railway purchase and construction. The former involves increased taxation; the latter, if prudently applied, does not. The same contrast appears in the English national, as opposed to the local debt." (Bastable, *Public Finance*, p. 583.) But remember that not all public works yield a revenue, and that as far as they fail to yield it, the outlay on them is like military outlay. Much of the borrowing, for example, by the Italian Government for railway construction has been of this character, the railways being worked in the aggregate at a deficit of nearly three million pounds sterling a year.

§ 2. **How to meet Extraordinary Public Expenditure.**—If for the moment we assume that a large sum is really needed by Government to meet some grave emergency or to gain some great benefit, then in 99 cases out of 100, in the commercial countries of Europe and America, a Government or municipal loan, raised according to the proper technical methods, is a fairer and less burdensome mode of obtaining the sum needed than an increase of taxation.

The contrary view of Chalmers followed by Mill, based on a rigid application of the wage-fund theory, and concluding

that all borrowing comes from labourers' wages, and that therefore all expenditure should be met out of current revenue, is confuted by Bastable; as well as the other extreme, based on the confusion of all loans with loans for reproductive purposes, and concluding that all Government outlay is like an investment of capital. (*Public Finance*, Bk. V. ch. v.)

Besides loans and extra taxation there is often a third way to meet extraordinary public expenditure, namely, the issue of inconvertible paper currency. This may be an excellent resource for an emergency; but is limited to the value of the currency, and is liable to the abuse of over-issue; and then whatever the Government gains by this over-issue is virtually gained by a most unfair species of taxation levied from the classes who suffer by depreciation. (*Supra*, Bk. II. ch. vi. § 15; ch. vii. §§ 7, 8.)

There is sometimes also a fourth course, that of alienating fiscal domains. But even where available such a course is doubly bad, because the advantages are lost of retaining such domain as a future source of revenue, and above all because a vast sale on an emergency means selling at a great disadvantage. Observe that the line between ordinary and extraordinary expenditure is not always very clear. A great war is always extraordinary; but scarcely the chronic small colonial wars in a great Empire like the British. And while a new public building is certainly an extraordinary expense for a municipality, it is scarcely such for a great State, which may reckon that scarcely any year will pass without a new public building being built somewhere at the cost of the central Government.

§ 3. **Advantages of Borrowing.**—*First*, we avoid an unfairness to holders of temporary incomes who else would be paying taxes for expenditure of which the chief benefit would be reaped by others. *Secondly*, we avoid an unfairness and injury to those whose property or income is of such a character that if they had to pay a large sum at once, they would have to sell property at a loss, or borrow at a higher rate of interest than the Government, and higher for individuals in proportion to the smallness or uncertainty of their income. *Thirdly*, we avoid

unfair hardship to those who suffer loss of fortune soon after the emergency, and an unfair boon to those who gain a fortune soon after. "A collective debt defrayed by taxes has over the same debt parcelled out among individuals the immense advantage that it is virtually a mutual insurance among the contributors." (Mill, *Political Economy*, V. vii. § 2.) Taxes to pay the interest of the Government loan shrink with a man's shrinking fortunes; but the debts do not shrink that he has incurred to pay the war taxes. *Fourthly*, although the diversion of a nation's men and goods to non-industrial purposes is the same (putting aside loans from foreigners) whether the expense is defrayed by loans or taxes, a loan lessens the *dislocation* of industry (*supra*, p. 401), the immediate payers being those who can pay with the most convenience, and thus lessens the waste of wealth and the aggregate of suffering.

It may be objected, indeed, that by the multiplication of annuities there is a multiplication of those who hold property without responsibilities, and who have no interest, as Adam Smith urges, in the improvement of any particular portion of land, or good management of any particular portion of capital stock. This is true if the debt is very large, and is a reason for keeping it within bounds; but is probably much less a check on industry than the indebtedness which would result from private borrowing to pay heavy taxes; and can be mitigated by wise laws on responsibility.

The arguments in favour of borrowing have peculiar force in regard to local Government, inasmuch as it "deals with a smaller revenue on which any extraordinary outlay has greater effect, and it is restricted in its taxing powers, while the national Government can more easily distribute its outlay from year to year, and has full control over its means of revenue." (*Public Finance*, p. 665.) Moreover, since the principle of special benefit (as we saw, ch. iii. § 3) is of special application

to local finance, loans for local improvements are specially desirable, rather than temporary heavy local taxation, lest the temporary occupier be grossly overburdened to the gain of the reversioner, who would come into a property made far more valuable than before by new sewage works, for example, or water works, or roads, to the cost of which he had not contributed a penny. True, he could have been made to pay by an ideal betterment tax (or special assessment); but in practice it is easier to reach reversionary property by borrowing, and thus spreading the payment of unusual charges over many years.

§ 4. **Whether Debts should ever be paid off.**—It follows from the foregoing arguments that when a Government debt has been contracted it should not be paid off so rapidly as to require a serious annual addition to the taxation. But should it be paid off even gradually? It should be, except in the case of a colonial country rapidly advancing in wealth and population, and for four reasons. *First*, if a fresh emergency arose, and further borrowing was needed, the loan could be got on easier terms if the existing debt were only moderate in amount. *Secondly*, such further borrowing, if there had been no previous paying off, would result in an unwholesome multiplication of annuities, in too large a proportion of the national income passing annually through the hands of the Government into the hands of the fund-holders. *Thirdly*, if population and wealth declined, the actual debt would require heavier taxation to pay the interest. *Fourthly*, any great change in the value of money might unfairly burden in one case the annuitants (fund-holders), in the other case the tax-payers.

As a fact during the last quarter of the nineteenth century the appreciation of gold has added many millions to the value

of the national debts of Europe, America, and British India; and increased the burden on the tax-payers by at least twenty per cent.

To the four previous reasons a fifth may be added in certain cases, that the political independence of a weak State may be sorely endangered if its national debt is large and is largely held by subjects of powerful foreign States; and the character of an *external debt*, of which the interest is payable abroad as well as at home, may be very different from that of an *internal debt*, of which the interest is only payable within the country.

Observe that the first and third reasons for paying off debts apply with peculiar force to local finance; not so much to great cities whose financial credit and powers are almost as great as those of central Governments; but to small local bodies. Hence their powers of borrowing are rightly restricted; and it is generally and well arranged in England, Belgium, and Germany, that when these small bodies borrow, the central authorities shall be the lender, and that the principal of the loan shall be gradually but regularly repaid by instalments.

§ 5. **Grave Abuses connected with Public Debts.**—It might seem from the advantages of borrowing already set forth, that without further questioning we might tranquilly admire the vast modern growth of national and municipal indebtedness as a brilliant illustration of civilised finance.

Unfortunately our tranquillity rests on the assumption that the sum expended by the authorities was the sum it was right for them to expend, and that the only question was how best to raise it: whereas in most cases the expense would have been less, or not incurred at all, precisely had it not been possible to raise a large sum by way of loan, and in many cases, also, this expense was precisely what ought not to have been incurred. Hence a tremendous objection to loans is the *fatal facility* they offer for mis-spending the public wealth, of

which the political history of the nineteenth century affords abundant examples. Further, we have assumed that the loans have been raised according to the proper technical methods, such as would be used by the central Governments of England, France, or Germany. But this assumption in many cases both of central and of local Governments, is sadly at variance with the scandalous history of their debts, the principal swollen far beyond actual receipts, the usurious interest, the immense enrichment of so many financial middlemen, and the immense sums drawn, now from deluded bondholders, now from helpless tax-payers.

In truth the very technical excellence and mighty development of modern banking (described in Book II.) have brought all States that are politically weak or corruptly governed into imminent danger of subservience to financial magnates. Great bankers or combinations of bankers may become the masters rather than the servants of the State, may not merely facilitate loans, but may encourage them to the public loss and their own private gain, may be in collusion with contractors in promoting loans for what are called productive purposes, like State railways or harbours, may manipulate the stock exchanges, make the press their mouthpiece, even tamper with diplomacy, control the public policy of States, and dictate on peace or war, and still worse, may dominate the interior policy of the Government, hindering legislation meant to protect borrowers and landowners, or sweeping away such legislation. And in

fact the domination of Jewish financiers in several countries of the Continent has been so great, that it has been said, hyperbolically but instructively, that "Europe is the government of the bankers, for the bankers, by the bankers."

§ 6. **Reasonable Estimate of these Abuses.**—We must beware of two extremes in which are involved many writers on public affairs. One is to ignore the modern revolution in public affairs and the grave political dangers arising from the connection of banking with Government. The other is to denounce the capitalistic or plutocratic rule, and the universal servitude of the State to financial magnates, without distinguishing one State from another, or making clear the nature and extent of the alleged servitude, or helping us to secure the use of banking without the abuse.

The first extreme is very common in English economic literature; and we find grave writers gravely ignoring the most pertinent and well established facts. Professor Bastable, indeed, is not among them, and well recognises the serious evils that have accompanied the development of public indebtedness. "Immense advances have been made to Governments that no prudent person would trust, and for objects that could not possibly be regarded as beneficial." (*Public Finance*, pp. 580, 581.) The second extreme is less common in England, though we had one of the earliest examples of it in William Cobbett; but is common among continental Anti-Semites.

For both extremes the prime remedy is a careful study of the evidence, for example, the Parliamentary *Report on Loans to Foreign States*, published in 1875, the ninth, tenth, eleventh, and twelfth chapters of Claudio Jannet's *Le Capital*, Paris, 1892, this writer's testimony being all the more valuable because he belonged to the optimistic and liberalistic school of French economists. In Claudio Jannet's pages we see how the great financial houses fish in troubled waters: revolutions, wars, and corrupt Governments bring them a rich harvest, for example, the Napoleonic wars, the revolutionary troubles of Spanish America, the revolutions of 1830 and 1848, the downfall of France in 1871. Thus the costs of issue of the loan of two and a quarter milliards of francs in 1871 (about £90,000,000) amounted to $3\frac{3}{4}$ per cent., or a tribute of some three and a quarter million pounds sterling to the banks of Europe. Even a Government so secure and so strong as the German in 1890 was induced to

issue a loan of 3 per cent. at the price of 84·40 for every 100 marks, to the great profit of the bankers, who were able to resell the loan to the investing public at a higher price. Nay, in England itself in March, 1900, the war loan of £30,000,000 was issued below par, giving a profit of some £450,000 to financial intermediaries.

It seems then dubious whether we can accept Professor Bastable's view that the evils are only temporary, and that there is decided evidence of improvement. No doubt we learn from a study of financial history that many of the abuses of modern times are not a novelty; that some were seen even before the modern period of public finance which may be said to begin with the English Revolution of 1688; and that the diversion of public wealth to the enrichment of intermediaries, more or less parasitic, is, like "the law's delay, the insolence of office," a chronic infirmity of the body politic. But there is one significant difference, discerned by Claudio Jannet, between the nineteenth century and its predecessors. Formerly each generation of enriched financiers speedily withdrew from business; their families became absorbed and their wealth scattered among the mass of their fellow-citizens. But in the nineteenth century a body of financiers has arisen, mainly Jewish, hereditary and cosmopolitan, with ever increasing wealth, ever extending power, to whom Governments are subservient, to whom nations are instruments of enrichment, and in whose hands the smaller States are like pawns, and the greater States like pieces on the financial chessboard. (*Le Capital*, pp. 447, 448, 501—508.)

§ 7. **Conclusions, Moral and Technical.**—The prime remedy for these evils is a combination of good morals and good sense: not the violent destruction of the whole system of modern finance, not exceptional legislation against Jews, but a steady amendment of our laws and their administration so as to reduce parasitic enrichment, whether of Christians or Jews, to a minimum. Abuse does not take away the use; we can say with a French Minister: *Faites-moi de la bonne politique et je vous ferai de la bonne finance*, that is, the finances will be of the same complexion as the rulers; a humane

and reasonable Government can use without abusing the valuable expedient of public debts; and we can apply to them the same formula as was suited to joint stock companies, trade unions, stock exchanges, and other conspicuous institutions of our time, that our work is not to abolish them, but to baptise them.

But good dispositions require knowledge to give them effect; and if banks are to be useful servants of the State as they can be (*supra*, p. 368), and not masters, every Government should observe as far as possible the following technical rules, which can be found duly explained in the sixth and seventh chapters of the Fifth Book of Professor Bastable's *Public Finance*.

Let the debt be issued as near par as possible; that is, let every hundred pounds sold to subscribers to a loan be sold, as near as can be, for a hundred pounds, though high interest may have to be paid to attract subscribers; instead of being sold at much below par, say eighty pounds, for the sake of paying lesser interest. For in the second case the artificially swollen principal of the debt cannot be afterwards reduced; but the high interest in the first case can probably be reduced when the emergency is over and confidence restored, and the debt be *converted*, that is, changed into one bearing lower interest; to which the holders of the debt will consent, rather than have their principal returned to them. For if necessary the Government can now borrow at a lower rate of interest to pay off the previous debt borrowed at a higher rate.

Let the bulk of the debt be funded and redeemable. This follows from the previous rule, and means that the debt be mainly in the shape of permanent stock, but that the Government may at any time pay off the holders by returning the principal of the debt.

Other forms of debt may be useful as supplementary, in order to attract certain classes of lenders, such as life annuities, terminable annuities, and debts redeemable by annual payments, the particular holders who profit by the annual drawings being a matter of chance.

Let the "floating debt" be kept low, and not exceed about a fourth of the annual revenue of the Government. A floating debt is the temporary debt that cannot be con-

veniently avoided even by the best of Treasuries, to meet deficits of certain periods of each financial year.

Let the paying off or "redemption" of debt be effected by the one straightforward plan of providing surplus revenue for the purpose, and taking care that the surplus is devoted to the purpose. The Sinking Fund established by Pitt in 1786 was intended to redeem the National Debt by accumulating at compound interest. See Palgrave's *Dict. of Polit. Econ.*, *s.v.*, Sinking Fund. Pitt was misled by Dr. Price, the great advocate of the compound interest fallacy (*supra*, p. 387), whose theory is brilliantly criticised in Marx's *Capital*, Bk. III. ch. xxix.

POLITICAL ECONOMY.

Epilogue.

PART I.

SCOPE AND METHOD OF ECONOMIC SCIENCE.

§ 1. **Causes of Disagreement among Economists.**—Much has been written on the scope and method of political economy, that is, on the position of economic science among the other sciences, and on the logical procedure by which the conclusions of this science are to be reached. But though much has been written no agreement has been come to: a misfortune due principally to two causes. The *first* is the want of agreement on the meaning of words and the consequent misunderstandings which never could have arisen had there been a recognised philosophical vocabulary. With a good deal of trouble these misunderstandings can be tracked out and the disagreement removed; and in fact several recent economists have been at pains to show that earlier economists did not mean all they seemed to say. But the *second* reason for disagreement is much graver than a mere misunderstanding, being

nothing less than a fundamental divergence on the first principles of ethics. Explanation is useful even here, not indeed as a means of removing disagreement, but as a means of showing that controversy about particular principles and conclusions is fruitless when we are not agreed about general principles and the very premisses of the argument.

On the further question why there is this disagreement on the first principles of ethics, that has such an unfortunate bearing on economics, it is enough to say here that this is a question for the higher region of general ethics, not for particular ethics, with which the present volume is concerned; and that if we have made any intelligent study of theology, there is nothing in this disagreement to surprise us.

§ 2. **Economics a Part of Ethics.**—If we are agreed on the true philosophical view of the nature and destiny of man and of his surroundings, we ought to have little difficulty in agreeing on the position of economics among the sciences. It is a part of moral philosophy or *ethics*, which, in the widest sense, is itself that part of philosophy which regards the moral order. This science of ethics must be subdivided if it is to become intelligible to us; and of divisions the best seems to be as follows: to separate *general ethics*, looking at the nature of morality and at law and justice in general, from *particular ethics*, looking at the free actions of man in particular departments of life; and then to divide particular ethics into two great sciences, *economics*, looking at the free actions of men as bound together for the purpose of getting their subsistence and preserving their race; and *politics*, looking at the free action of men as bound together

for defence against injustice and for the settlement of disputes.

Several writers have used the term *jus naturæ* for particular ethics. Sometimes the term ethics is confined to general ethics, and *scientia moralis* is divided into two parts, *ethica* and *jus naturæ*. So by Fr. Joseph Rickaby in his *Moral Philosophy*, where he neatly distinguishes the two parts by the logician's phrase, that the one attends to the *comprehension*, the other to the *extension* of the idea *I ought*. This volume deals in detail with one portion of that extension.

Among modern writers, again, not a few use the terms *social science*, *political science*, or *political philosophy*, for particular ethics. But the terms we have adopted seem clearer.

The phrase *political economy* is in itself unsuitable to express the science of economics, though it suited well enough the mercantile theory of those who invented it, and who dragged down economics from being a branch of moral science to be a mere art of how to enrich the Government; and the dexterous management of the national resources and systems of finance, were styled political economy as distinct from the private economy of particular households. At present, however, this term is used as a synonym for economic science, without regard to its mercantile origin. So again, the phrase *national economy*, very common in Germany (*Nationalökonomie* or *Volkswirtschaftslehre*), is simply used for economic science, though it might seem to imply that truth, like climate, is relative and geographical, not the same on the Spree as on the Thames.

Distinct from the question of words is the question whether any further subdivision of politics and economics is desirable. It is possible, for example, to subdivide politics into *public law* or the constitution of the State, *private law* or the manner in which the rights of the members of the State are determined and enforced, and *international law* or the relations of States to one another. Again, the revenue and expenditure of the Government can be detached from public law, and made a separate object of study under the title of the *science of finance*. Such divisions are probably of great practical use; but whether economics can be broken up into any corresponding divisions, seems dubious; and the German plan of making a separate *science of administration* (*Verwaltungslehre*), treating of police and public functionaries, of the repression of vice, of public health, of the treatment of the poor, and of education, seems to combine materials that would better be assigned, some to public law, some to private

law, some to economics. Still, as noted in the first paragraph of the Prologue, there is no hard and fast line between economics and politics: we separate them for the sake of learning and teaching, but they are intimately connected, being only different aspects of the same social life, every economic argument being in some manner political, and every political argument in some manner economic. Hence it is convenient to combine the study of the two sciences; and it is of comparatively little consequence how the combination is carried out, as long as the great principle is recognised that both sciences in all their parts are subordinate to ethics.

§ 3. **Distinction of Sciences and Arts: Economics a Science, not an Art.**—It is necessary to distinguish economic *science* with great clearness from the various *arts* subordinate to it. In contradistinction to science, an art is a body of rules for reaching a particular end prescinding from morality, that is, leaving questions of morality on one side. And as the Greek word for art is τέχνη, we get the term *technical*, or what concerns matters of art, in contradistinction to *moral*, or what concerns matters of right and wrong. Now in order to decide moral questions, that is, to apprehend rightness or wrongness in particular cases, it is often needful to know technical matters. For example, it is a technical matter that cotton to be properly spun ought to be kept in a temperature not lower than 80° Fahrenheit, and that the air be charged with a certain degree of moisture. In themselves these are mere details in the art of cotton-spinning ; but yet must be known if we are to judge of the rightness or wrongness of the actions of mill-owners and Governments touching the hours of work and the age of admission in cotton-spinning factories. It follows that many technical details and maxims have

a place in economic science, according as they have a bearing on moral judgments. So, for example, in this volume in the chapters on the locality and dimensions of industry, on coinage, on commercial credit, and on taxation. But because we require them we must not forget that they are but subsidiary and preliminary.

Let us be careful then to avoid two very serious mistakes: (1) To make economics a mere art of getting rich, and consequently giving us conclusions that are only provisional, as being subject to approval or rejection by ethics. For although such an art is possible, it should be called, as Aristotle has taught us, by the name of *chremastistics*, and should not sail under false colours as economics, with the likelihood that we shall think so highly of our dollar-hunting maxims as to resent their being "modified" by ethics, nay, shall perhaps get rid of ethics altogether by declaring that our technical maxims are like physical laws which no preaching can alter.

(2) To confuse moral science with art, and say that because political economy is a science, therefore it must only treat of phenomena and laws; not of what ought to be, but only of what is. For a science which confined itself strictly to phenomena would be a contradiction in terms, at least if a science is *cognitio rerum in suis principiis;* and the moral order is a body of truth as capable of being the object of a science as any other body of truth. No doubt we can distinguish practical sciences from speculative, according as the truths examined have or have not a direct bearing on the free actions of rational beings. But such activity, to be called by pre-eminence human action (*πρᾶξις* or *doing*), is very different from human activity looked on simply as a means to a particular end, such as to make a table, win a battle, raise a crop, which is not to be called action or doing in the proper sense, but *making* or construction (*ποίησις*), and belongs to the arts, to the *recta ratio factibilium*, not to moral science. To confound them is a most unhappy confusion.

§ 4. **Bearing of Physical Science and Psychology on Economics.**—In like manner certain portions of *physical science* are introduced into economics as necessary preliminaries to our forming

ethical judgments. So, for example, in the chapters on the productive capacity of the earth and of man. Again, economic science presupposes the results that *psychology* gives on the emotional and intellectual qualities of man, and in consequence, aided by a careful study of history and statistics, can estimate various probabilities of human action. So, for example, the probabilities of depraved consumption under certain circumstances, or again of market prices or monopoly prices under certain conditions of supply and demand. But the limits and interest of such phenomena are precisely their bearing on moral action, whether of individuals, of families, of associations, or of Governments; and thus to make economics as some have done merely a physical or merely a mental science, or again merely a mixed mental and physical science, is to take the introduction for the whole book, to take the data for the conclusions, to take the earthworks and scaffolding for the building. Nor is there any way, if we are to avoid confusion and incoherence, but the one way, to restore both economic and political science to their former position as portions of ethics.

The disastrous separation of economics from ethics was to be expected with the decay of philosophy, the loss of the sense of the unity of science, and the corresponding separation of political science from ethics, a separation begun by Thomasius at the end of the seventeenth century and completed by Kant at the end of the eighteenth: and this, not simply against the teaching of Christianity, but against the best traditions of the human race. For in the Hellenic and Roman world had sounded "illa Platonis vera vox: omnem doctrinam harum ingenuarum et humanarum artium uno quodam societatis vinculo contineri." (Cicero, *De Oratore*, III. vi. 21.) And the philosophy from which the most

enduring and numerous of all peoples have drawn during 2,000 years their mental nourishment, that of Confucius and Mencius, made politics and economics, like their Greek contemporaries, a portion of ethics.

§ 5. **Note on Normative and Positive Science.**—In the clear and able work on *The Scope and Method of Political Economy*, by Mr. Keynes, the author by no means confuses ethics with an art; and his distinction of *normative* and *positive* science corresponds well enough with the ancient distinction of *scientia practica* and *scientia speculativa*. But he urges that we ought to keep distinct the positive science of political economy, which looks at uniformities, from the ethics of political economy, which looks at ideals; that the positive science is political economy properly so called; that to pursue it independently of ethical inquiries is the right way, in order to keep calm and unprejudiced, in order also to avoid treating the theorems of pure science as though they were maxims for practical guidance, and finally, in order to avoid multiplying and perpetuating sources of disagreement, by allowing ethics to intrude into economics. In consequence, he keeps distinct the economic from the moral or ethical point of view.

Now the dispute is partly a matter of words and arrangement: whether we shall keep all the prolegomena, the technical details, the selected extracts from physical science and psychology, the examples from history and from statistics, the probabilities of human action that can be reckoned on—whether we shall keep all this in a volume by itself, and call it political economy; and then put all our ethical judgments, all our praise and blame, in another volume called by some other name. Now this might be done, but would be very inconvenient, separating premisses from conclusion, and breaking off at the very point of interest, when all the materials for judgment had been collected. We could hardly put up long with this inconvenience, as we see by the fact, that the great body of economists who profess to have to do, as they say, with the indicative mood only, and not the imperative mood, cannot keep from trespassing not merely incidentally but habitually on the ethical field, as Senior complained, all the while doing it himself, as Mill and Roscher and Walker have done, not to speak of any living economists. And Mr. Keynes' fear of bias is not much of an argument in favour of the separation of economics from ethics; for most economists have quite wit enough to know what practical results follow from their innocent-looking indicatives; and open bias is better than veiled bias. Besides, if our ethical judgments are interwoven

with our studies of phenomena, I think we are not more likely but less likely to interpret theorems as maxims.

But then there is a deeper ground for the dispute. Mr. Keynes is only half emancipated from the belief in a body of science which is really only about imaginary men under imaginary circumstances. With such a science ethics has indeed nothing to do (except so far as declaring the wrongfulness of waste of time). The very specimen given of a doctrine that belongs to "positive science," is a mere collection of words without corresponding realities, namely, "that under a system of thoroughgoing competition, normal value is determined by cost of production." For in real life we shall look in vain for a system of thoroughgoing competition, or for normal value, or even for cost of production as distinct from separate and various costs of production. No doubt, as explained in the Prologue (§§ 2 and 3), "economic laws" and "normal" are phrases that can be used to express realities; but Mr. Keynes seems to use them to express hypothetical conditions. The grave objections to this have been shown at length above (Bk. II. ch. ii. §§ 16, 17); and we have seen what grave mistakes are the consequence, for example, the Ricardian doctrines of rent (Bk. II. ch. iv. § 23) and of international trade. (Bk. II. ch. v. §§ 2, 18.) The point at present is that Mr. Keynes has in view a large body of such hypothetical reasonings as unhappily occupy so many pages in the works of Ricardo, Mill, and the new Austrian School, for which he wants house room; and as ethics is clearly not the home for them, a new building has to be run up among the halls of science. But if we remove these cumbersome abstractions, this litter of scientific playthings, there is plenty of room in ethics for the legitimate preliminaries of our moral judgments. And observe that precisely upon the principles settled in our general ethics depends our choice amid the innumerable phenomena that crowd around us; mere facts being nothing, pertinent facts everything. But to know which are pertinent, the "*merito memorabilia* quæ sunt tamquam rerum lineamenta majora" (Leo XIII.), we must have previous knowledge to be our guide through the labyrinth of appearances. The fact-collector must be guided by theory if he would avoid irrelevance, and must have a principle of selection if he would bring the facts together to any purpose. (W. E. Johnson on "Method of Political Economy," in Palgrave's *Dictionary of Political Economy*.) And precisely this principle of selection, this previous knowledge is provided by a sound philosophy, in particular, by a sound training in general ethics. Hence we can answer Mr. Keynes' final objection to making economics a part of ethics, that this is to

invite needless or premature controversy. On the contrary, much idle controversy about multitudes of conclusions is checked by the disputants being recalled to first principles: if they are agreed on these, they will probably soon be able to agree on the consequences; and if not agreed on first principles, they will soon see that controversy is fruitless.

§ 6. **Bearing of History on Economics. Exaggerations of the Historical School.**—The other extreme to the abstract or hypothetical economists is the *historical school* of economists. In many ways indeed they have done good service to science: they have been right in rejecting as useless the imaginary laws supposed to regulate wages, population, profits, interest, and prices; right in rebuking, as St. Augustine long ago rebuked, the narrow-minded judgments of the conduct and customs of all mankind by the standard of our own; right in returning to real life and listening once more to Aristotle's maxims, that if we are to reach the truth about moral action we must look to what men really do, and that in politics and economics those judge best who examine the processes of growth; right again in returning to the scholastic view of the unity of science; right in refusing to divorce economic science from ethics. Nevertheless the historical school have gone wrong, not so much in their particular ethics as in their general ethics, by rejecting the notion of the natural law and of the Divine government of the world, and by reducing all principles of morality to historical categories. But this reduction or provisional reduction of economics to be narration or description rather than science (for science is concerned with the principles of things), is not so simple as it seems. We know and can know little or nothing of the history of the great part of the human race; so that our description must be a very poor one at the best. And the other part provides an opposite difficulty in an overwhelming and ever-accumulating multitude of facts. If a man thinks that facts will speak for themselves it shows he has never tried to interrogate them. In truth, if we are to get any information we must be well trained to know what to look for, to know how to distinguish the exceptional from the typical fact, the pertinent from the irrelevant, and to know how to interpret the meaning of what we select. But, as stated in the preceding paragraph, no one can do this without philosophical and especially ethical training. Moreover, if our business in science is with the real not imaginary world, and if we are to understand the complicated drama of the world's history, and trace the relations of what *has* been, what *must* have been, what *might* have been, what *ought* to have been, we need the light of revealed theology. For if *in*

fact there has been a great revelation, if *in fact* the Incarnation is the centre of human history, if *in fact* the Christian Church is the most striking of all historical phenomena, it seems contradictory to profess to be exponents of realistic and positive science, and yet to ignore these pertinent facts in departments of science on which they have so great a bearing. Hence I have openly followed the Christian view of man and his surroundings, of the family and of the State, and have been thankful for such a lantern through the gloomy and illimitable forests of political and economic facts. Moreover, the attitude of impartial observers of history, knowing nothing beforehand, with no preconceived theories, cannot be maintained even were any good to be got by maintaining it. Men cannot persist in negation, and if they will not have Christian ethics to guide them, they will have some other kind of ethics, and imaginary theories of political and economic development into which the "facts" are then made, as best they can, to fit.

§ 7. **Theories of Sociology.**—In the nineteenth century the name sociology has often been given to theories of the succession or co-ordination of social phenomena. Such theories have been numerous—for example, those of Comte, Hegel, Buckle, Marx, Mr. Herbert Spencer, Pearson, Mr. Kidd, and Mr. Giddings—and we meet with "historical categories" such as progressive, stationary, and declining states; the theocratic, military, and commercial stages; societies under status and under contract, homogeneous and heterogeneous, mediæval and modern, customary and competitive; the growth of economic freedom and of strong self-determining spirits; the passage from feudalism through capitalism to socialism; the passage from community to severality proceeding *pari passu* with civilisation.

Now these and similar theories of social evolution, although they may contain or indicate some truths, are not the way to the truth, are principles of perversion rather than of selection (to use Toynbee's phrase); while their treatment of history, as Sidgwick has pointed out, "bears not the slightest resemblance to a scientific demonstration." See his *Scope and Method of Political Economy*, 1885, pp. 45—55, and his review of Giddings in the *Economic Journal*, Sept., 1896, pp. 427—431. See also the excellent article on "Social Science," by J. D. Rogers, in Palgrave's *Dictionary of Political Economy*, with many references attached, to which may be added the articles by G. Molteni on method in the social sciences in the Roman *Rivista Internazionale di scienze sociali*, May, June, and August, 1900.

Indeed the irremediable weakness of most works on

sociology is their failure to stand the test of scientific history. For example, the theory of a warm climate being destructive of energy is contradicted by the testimony of the monuments that show the long-continued and active civilisation of Egypt and Assyria. The theory of a general progress from village communism to individual ownership is inconsistent with the evidence collected by Fustel de Coulanges, Mr. Seebohm, and Mr. B. H. Baden-Powell. The civilisation of the Chinese, a quarter of the human race, is in itself a confutation of Mill's theory (in his Introductory Remarks) of economic progress. And Mr. Kidd's theories involve notions on the economic condition of the Roman Empire and on the "theocracy" of the Middle Ages, incompatible with the contemporary documents.

There are, however, some theories, modest and limited, of economic history, that may be of service to us. Let us hear Professor Ashley. "Economic historians have traced four stages in the development of industry, . . . the *family system*, the *guild system*, the *domestic system*, and the *factory system*." (*Economic History and Theory*, Part II. p. 219.) "The open-field convertible husbandry, and rotation of crops correspond . . . to three great stages in the process of economic evolution . . . in agrarian history," which can only be compared in importance to the stages in manufacturing history just given. Neither generalisation means that every manufacture and every rural district must traverse all these stages; but that those traversed them that led the way in improvement. "When properly understood both propositions become useful guides through the mazes of historical detail." (*Ibid.* p. 262.)

§ 8. **Both Theory and Observation, Deduction and Induction, needed for Economics.**—Having explained the scope, we have explained by implication the *method of economics:* that it must not be called a purely empirical or a purely deductive science; that both in the ethical judgments of economics and in the preparation for them, there is need of using both the inductive and deductive processes of reasoning; that there is need of starting at one time from specific experience, and working up to the abstract; at another time from

ethical doctrines, and working down to the concrete; and also of verifying our conclusions, at one time by a detailed examination of homes, and workshops, and States, and at another time by our knowledge of the nature and duties of man; that we must select for observation phenomena that are pertinent to our doctrines, and select doctrines that are pertinent to the life we have to explain; that (as Mr. Keynes rightly tells us) we must use history to criticise theory, and theory to criticise history. And the caution should be added that whether we be engaged on deductive reasoning or on inductive, we must equally observe the rules of logic, and in particular be careful to avoid all arbitrary hypotheses, all false analogies (on which the reader is begged to look back to Book II. ch. ii. § 17), all audacious leaps from imaginary to real life, all illusory inductions by simple enumeration.

Had these rules been observed on both sides, the dispute about the *relativity* of economic doctrines could hardly have arisen. Not content with showing that much of the doctrine of the classical school of economists was arbitrary hypothesis, or an illogical extension to all men at all times of the characteristics of stock-jobbers; and not content with showing that the application of principles must be local and particular, and social reform an ever varying problem: the historical school went further, and denied the existence of any universal laws, denounced the *absolutism of theory*, and made all economic doctrines relative or provisional. In reality, much of the physical and psychological foundations of economic science is true of all times, places, and men; the general principles of ethics are absolute and unchanging; and the mistake of the classical economists was not in recognising the *constant* in the physical, psychological, and ethical world, but in being blind to the *variable*, blind to the need of considering the endless variety of pertinent circumstances, according to race, traditions, knowledge, religion, climate, country, latitude, wealth, education, and condition of the arts of production;

so that both the probabilities of action, and the application of the moral law would be gravely affected, and many problems important in one state of society would be irrelevant in another. But then the historical school reasoned as though all was variable and nothing constant; so hard is it for men of science to avoid one excess without running into another. An illustration of this is the exaggeration on the continuity of economic phenomena, and the impossibility of drawing any lines, criticised in the Prologue, § 19.

§ 9. **Use of Mathematics and Statistics in Economics.**—The use of *mathematics* is another point of dispute between the abstract and historical schools, the latter denouncing it as waste of time. And in the main they are right; only it should be made very clear that the wrongness is not in the mathematics, but in the hypothetical and sterile discussions, which are even more waste of time, because longer and more misleading, when treated without mathematical symbols, than when treated with them. Hence the abstract economist Cairnes, in his objections to the mathematical method, is quite out of court. And it should also be made quite clear, that although the greater part of economic science is quite unsuitable to be explained in mathematical terms, a smaller portion is capable of such explanation, for example, certain features of market prices and monopoly prices, and of the value of money and currency. Hence diagrams may be a useful instrument in economics, always provided that they are kept within the narrow space that is their field. Naturally those who have elaborated a theory of marginal utility and the measurement of increments of pleasure, would give to mathematics a much more important place in economics. But observe again that it is not in their use of mathematics that they go wrong, but in their materialistic philosophy, which unduly extends the field of quantitative measurement; forgetful that, though quantity and movement are the special object of the exact sciences, they do not exhaust the content of the universe; and that in every transition from potential to actual energy, the *qualitative* element is as real and influential as the *quantity*. See Rev. Michael Maher, *Psychology*, 4th Edit. p. 522. The same criticism applies to Karl Marx, the socialist, who has much in common with the abstract school of economists, and makes frequent use of mathematics in all three Books of his great work on *Capital*. Given the truth of his theories, they are best expressed mathematically.

In the same way *statistics* in the narrow and strict sense of orderly collections of numerical facts, are useful in certain portions of economics, notably production and exchange.

But far more economic information and instructive data can be obtained from what may be called the higher statistics, namely, inquiries like those made by Royal Commissions in England, or again from detached *monographs* by select and trained observers of the whole mode of life, the dwelling, clothing, food, industry, income, recreations, religion, and family history of actual families among the working classes, the excellent method of observation introduced by Le Play, and applied by him or his followers to the four quarters of the globe. Only these observations as well as all others, all reports, returns, and statements of fact, must be made to conform to the laws of inductive or *a posteriori* reasoning. Else we shall justify the saying that there is nothing more misleading than facts, except figures.

For these laws of reasoning I may refer to the sixth and tenth chapters of Mr. Keynes' book, especially to the admirable note on precautions in the use of statistics.

Students can find further details on the scope and method of economics in the two first chapters of the present writer's *Groundwork of Economics*. They may also note that the illogical separation of economics from ethics is analogous to the illogical separation of empirical from rational psychology by many modern writers, who restrict the word psychology to what is empirical. Political economy without a conscience is akin to that psychology without a soul, the self-contradiction of which is lucidly shown in chs. i., vi., and xxi. of Father Maher's *Psychology*.

PART II.

HISTORY OF ECONOMIC SCIENCE.

§ 1. **The Greeks and Romans.**—Let us bring this volume to an end with a brief survey of the history of economics, which is one department of the history of ethics.

Among the Greeks and Romans, our intellectual ancestors, the growing prevalence of slavery, as their science and literature grew, and the growing subordination of the family to the State, are the two chief reasons why their contributions to economics are less valuable than we might have expected. Still, Aristotle remains a great master in economics, while among others Plato and Xenophon, Cicero and the Jurists of the Roman Empire, show that economic problems were familiar to them. Then the elevation of ethics and the transformation of society by Christianity gave new principles and material to the science, and the *period of pagan antiquity* was succeeded by the *Patristic period*, the economic writings of which are deserving of more study than they have received.

In particular the works of St. Chrysostom and St. Ambrose offer a rich field for investigation. Many useful citations from the Fathers, especially on property, almsgiving and usury, have been collected by G. Ratzinger, *Volkswirthschaft*, 2nd Edit. 1895, pp. 80—93 and 305—320.

§ 2. **The Scholastic Period.**—The revival of learning and philosophy in the twelfth century brings us to the *scholastic period*, sometimes called the mediæval, in which questions of wealth, ownership, consumption, value, prices, markets, monopolies, currency and lending were treated with great penetration in the commentaries on Aristotle and in treatises on canon law or moral theology; and if economics and even politics were not treated as a separate department of science, there was no need for it, because of the simplicity of social relations and the want of historical or geographical knowledge of other societies; and on the other hand, because of the practical recognition of the unity and intimate connection of all the sciences, and their illumination by theology. But then came a change; for while the field for economic science (and political science too) grew much wider by the growth of commerce, the development of national life, inventions in the arts, and the discovery of the New World; yet the decay of philosophy, the dissolution of the intellectual unity of Europe, and the bitter religious and national antipathies injured the proper treatment of economics.

§ 3. **The Mercantile Period.**—The new period that began for economic science may be called the *mercantile period*, with many instructive works on particular points, but not on general principles, and able to show no work on economics of half the vigour and soundness of the great work of Grotius on politics. The characteristic of the period was the practical degradation of economics to be an art

of national enrichment, suitable to a time when the sense of a united Christendom and of the obligation of both Governments and individuals to conform to the Christian law, was weakened, and when (as Dr. Ingram says) the rule of national selfishness and private cupidity was strengthened. The teachers of this art of chrematistics were generally agreed that the great sign of a country's wealth was the abundance of the precious metals circulating within it; that markets for home manufactures, a lively trade, and dense population were to be desired, and that the Government could do much to promote this by commercial treaties and laws and privileges checking the importation of manufactured goods and fostering their exportation, and fostering in consequence their manufacture within the country. And assuming as the end in view that a particular Government should have ready at hand the utmost available resources, and be most formidable to its enemies, the mercantile system, with the military arts as they were at that time, and the industrial arts as they were, and politics and trade as they were, was perhaps the best means to that end.

The better side of the mercantile doctrine, though there was nothing new in this, was the recognition that private interests were liable to be contrary to public interests, that divers persons might seek their own singular profit to the common hurt and damage of the people, and regard more their own private lucre than the common weal and surety of the realm. Dr. W. Cunningham makes this plain, and also how the end in view was *power*, and that power was thought to depend on (*a*) the accumulation of treasure, (*b*) the development of shipping, and (*c*) the maintenance of an effective population. (*Industry and Commerce*, Vol. I. edit. 1905, pp. 470—472, 478—483.)

§ 4. **Period of Economic Liberalism.**—The next period was intellectually a great contrast to what had gone before, and may be called the *liberalistic period* or the period of economic liberalism, which prevailed for over a century. Its characteristics were to be irreligious and unhistorical; to believe in a natural and beneficent order of society, which men indeed could more or less disregard, but then would have to pay (in this life) a more or less heavy penalty; to believe also that unregulated relations were in general the only rational relations of society; to be optimistic on the natural wisdom and virtue of man and the harmony of private, public, and international interests; to assert the equality and alikeness of all men, and to strike by implication at all veneration for father and fatherland, at all belief in the active intervention of Divine Providence, nay, at the whole system of Christian ethics.

This celebrated theory of economics was in two ways a great improvement on what had just preceded it; first, in opposing the endless meddling and muddling of Governments that had been the result of the mercantile theory; secondly, in raising economics to be a science and an ethical science. So far then the new doctrine corresponded to the needs of the age, and as in the two countries then at the head of the world, there arose two men of genius who adopted it, Turgot in France, and Adam Smith in Great Britain, it became graven first on the minds and in time on the legislation of Western Europe. But this fair-seeming tree of new knowledge was rooted in the poisonous marsh of

irreligious ethics, and bore deadly fruit, which brought millions of men to misery and degradation.

§ 5. **Adam Smith and the Physiocrats.**—The French founders of economic liberalism have been generally called the *Physiocrats;* and far too much stress has been laid on certain points of difference between them and Adam Smith, when the important point is that he was virtually one of them. "Not only whole sentences, but whole paragraphs of Smith's work, are taken almost *verbatim* from the works of the Physiocrats, especially Quesnay and Turgot: so the celebrated four maxims of taxation; so the discussion of the division of labour, and the very example used by Smith, that of the pin manufacture with its divisions into eighteen operations; so the vital parts of the discussion of wages and of profits, of natural price and value. It is not an exaggeration to say that a great part of orthodox political economy owes its origin and even its present shape to the labours of the Physiocrats." (Professor E. Seligman, in the *Political Science Quarterly*, March, 1889, p. 177.) And "the skeleton of Adam Smith's whole treatment of the production and distribution of wealth may be found in Turgot's *Essai sur la formation et distribution des richesses.*" (*Ibid.* p. 179.) The true position, therefore, of Adam Smith is that of the great interpreter of the Physiocrats to the English world, the great overthrower of the mercantile system, and the great apostle in the British Isles of economic liberalism. His peculiar merit is that he is so much better than the doctrines he represented; so acute an observer of men and things, that he is constantly lapsing into common sense, leaving his "natural system" in the lurch, and deserting hypothesis for reality. Thus, like all great men caught in erroneous systems, he is full of inconsistency. And again, like most practical politicians, he is unfair to those whose doctrines stand in the way of what he advocates; and the mercantile doctrine in particular he singularly misrepresents, as though its aim was to increase national wealth absolutely, when its aim was expressly different, namely, to increase national power relatively to other and rival nations.

The view of Adam Smith being "the founder of political economy" is partly a question of words. If it is meant that he is the founder of economic science, this is as absurd as if we said that Comte was the founder of philosophy, or Kant the founder of ethics. But in the sense of being the author of the first great scientific work in England on economics as a separate branch of study, he may be said to be the founder of English economics, though the proposition is more likely to

mislead than to instruct. In the same way the Physiocrats may be said to be the founders of economic science in the sense of being the first to set it apart and treat it as a distinct science; but in no other sense. Therefore we must carefully avoid confusing the great increase of the field of economic science, due to our historical and geographical knowledge and to the many changes and complications of our industrial life in the last two centuries, with the creation of a new science. We might as well think that the discovery of the flora and fauna of Australia had given us new sciences of botany and zoology instead of merely increasing the field of the old ones. The natural ground for this mistake was the need, for the sake of learners and teachers, to break up the *scientia civilis* of Cicero and the *jus naturæ* of the Scholastics, because this morsel of knowledge had become too large to be swallowed whole.

Again let us be careful not to confuse the natural law of Adam Smith and Rousseau with the natural law of Christian ethics; for this is to confuse a caricature with a portrait. The famous historical jurist, de Savigny, when he attacked the notion of *jus naturale* as an unreal figment and empty abstraction, was right so far as attacking the imaginary history, the arbitrary hypotheses, the law without a legislator, and the subjective morality of the eighteenth century "philosophers." But he was wrong in not seeing or not showing how the *jus naturale* of the Christians, nay, of all theists, is a true law enacted by a real legislator, really promulgated to real men, through their intellectual and moral faculties, and every whit as binding, and sometimes quite as clear as any other law. Our own English jurist, Sir Henry Maine, has not escaped a similar confusion. If, indeed, men refuse to see that the ultimate objective source and unchangeable rule of all morality and all law is found in the eternal law (*lex æterna*) of a personal God, they cannot recognise the true law of nature. But it is for a science higher than that of economics to effect their cure.

§ 6. **"Orthodox" or "Classical" Political Economy.**—The course of economic liberalism, or, as it has come to be called, *orthodox* or *classical political economy*, ran triumphantly for many years, able to despise its opponents and to be unshaken by the many domestic quarrels among its adherents. In England it became, especially through the

influence of Ricardo, more and more abstract and apart from real life, and took its final shape in the great work of John Stuart Mill.

The essential points in which Ricardo's system differs from that of Adam Smith are, that complete mobility is assumed as a matter of course, instead of being advocated as according to nature; that instead of being permeated with false ethics, it eliminates ethics; that instead of being constantly corrected by observation of real life, it proceeds with remorseless precision from its false first premisses. And thus it appealed to a weak point in human nature, namely, the love of delusive simplicity, of a book or a system *in se ipso totus teres atque rotundus*. Ricardo's *Principles of Political Economy and Taxation* was thus saluted as a master-piece of human wisdom almost exactly with the same ludicrous enthusiasm which had been bestowed on Quesnay's *Tableau économique* three-quarters of a century before. And curiously enough, each of these narrow doctrinaire works was made the base of a great work by two men of genius: Adam Smith, the disciple of Quesnay, and John Stuart Mill, the disciple of Ricardo; and in both cases those parts where they most contradict (often unconsciously) the principles of their masters, are the most valuable in the works of the two disciples. Unhappily there is another likeness between Adam Smith and John Stuart Mill in the profoundly immoral character of their teaching, and in their open hostility to religion, the jeers at Christianity in the *Wealth of Nations*, being matched by the setting aside in Mill's *Principles of Political Economy* of the very elements of Christian family life.

The classical or orthodox political economy by being nominally separated from ethics, and presented as a science of *tendencies* only, and as hypothetical and neutral, could in consequence promulgate with comparative impunity the most unsocial and immoral doctrines. But "as a matter of fact, while affecting the reserved and serious air of students, political economists have all the time been found brawling in the market-place" (Toynbee), as promoters of the New Poor Law, as devil's advo-

cates against the English Factory Laws, as railers against the English trade unions, as thwarters of all rational remedies for the distress of Ireland and India, as purveyors of the sophistries that darkened our intellects, froze our hearts, and suffered millions to die in the agonies of famine. And thus the antipathy of the poorer classes, as well as of many among the most cultured, to this "dismal" and "inhuman" science, was a reasonable antipathy; and if not the teachers of political economy, at least their poisonous teachings, deserved the hard names they received.

That this judgment is not too severe, that the passionate denunciations of current economics by Kingsley, Dickens, and Carlyle gave voice to outraged humanity, that Ruskin was justified in bidding us separate the real science of political economy from the bastard science, as astronomy from astrology—would be admitted by many modern economists, and can be supported by an examination first of the conditions of England and Ireland from the years 1800 to 1850, and then of the doctrines of the chief "orthodox" economists, such as Malthus, Ricardo, James Mill, MacCulloch, Senior, and John Stuart Mill. The student may consult Mr. Cannan's excellent work, *History of the Theories of Production and Distribution.*

§ 7. **The Overthrow of Economic Liberalism.** —This was the result of many attacks by different forces, some good and some evil, such as (*a*) the spirit of compassion aroused by many dreadful disclosures, notably by the Royal Commissions in the forties and the sixties on the employment of children; (*b*) the spirit of nationality, unlike the previous cosmopolitanism; (*c*) the growth of socialism after it became evident that the triumph of the commercial classes over the landed aristocracy was no triumph

for the poorer classes, but rather a defeat; (*d*) the growth of true historical knowledge; (*e*) the growth of the false theory of evolutionary morals; and (*f*) the great revival of the religious spirit. Thus in England soon after the year 1870, the intellectual rule of liberalism was broken, and there followed the *anarchical period* in which various schools of economics have been striving for the mastery.

Among the opponents of economic liberalism in the last half-century of its dominion, we may single out of those attacking it from the national, mercantile, anti-cosmopolitan point of view, Carey and List; from the socialistic point of view, Proudhon and Lassalle; from the evolutionary or historical point of view, Auguste Comte, Knies, Cliffe Leslie, and George Eliot: from the humanitarian, ethical, or religious point of view, Sismondi, Mazzini, Carlyle, the "Christian Socialists," who were conspicuous in England in the middle of the century, and Ruskin, whose work will be considered in the next paragraph; also Le Play, the great Frenchman, who did for the economic observation of the present what the German historians did for the economic observation of the past; and who lived to see his once despised teaching raised to a place of honour. Conspicuous in the early years of the anarchical period was the brilliant Arnold Toynbee, who but for a premature death might have been the standard-bearer of ethical economics. Two notable names on the other side are Fawcett and Cairnes, who may perhaps be called the last of the "orthodox."

§ 8. **Critical Estimate of Ruskin as an Economist.**—The economic teaching of Ruskin, scattered in many publications, mingled with other subjects, and expressed in terms peculiar to himself, requires a key to be understood and a balance of mind to be appreciated, lest we mistake the meaning, or be repelled by the paradoxes and irrelevance, or allured by the wit and the eloquence.

Now the key is to know beforehand certain

valuable economic truths which are to be found in Ruskin's works, and to search for them; and to know beforehand certain failings, and to be on our guard against them.

The most important of these truths may perhaps be summed up under six heads:—

I. That a right theory of consumption is of primary importance in economics, and no estimate of production or measurement of wealth reasonable unless we regard the quality of the product and the use to which the wealth is put.

II. That consequently we must understand, if our reasoning on wealth is to be reasonable, the nature not only of positive but also of negative wealth; and not only of well-directed but also of ill-directed production and consumption.

III. That as a further consequence economic science is bound up indissolubly with ethics, and efforts to keep them apart involve logical absurdity.

These three propositions are summed up in his own words: "It is therefore the manner and issue of consumption which are the real tests of production. Production does not consist in things laboriously made, but in things serviceably consumable; and the question for the nation is not how much labour it employs, but how much life it produces. For as consumption is the end and aim of production, so life [he means the Aristotelian τὸ εὖ ζῆν] is the end and aim of consumption." (*Unto this Last*, § 77.)

IV. That the nature of riches implies inequality of conditions and working for others; a number of persons necessarily in one way or another working for every rich man.

V. That the method of the political economists

was illogical and based on a false analogy when they isolated the study of wealth, and from hypothetical motives in assumed conditions drew conclusions that were then to be modified by re-introducing omitted influences: as though man could be treated as a beast or a plant or a rock.

VI. That the practical teachings of the orthodox political economists were profoundly mischievous; for example, the awful evils of the drink traffic of England in 1867 (*Time and Tide*, Letter 12) and the Indian Famine of 1877 (*Fors Clavigera*, Letter 81).

It is the supreme merit of Ruskin to have proclaimed these among other truths during the twenty years from 1858 to 1878 in the face of a storm of invective and derision. But we can recognise this merit without ceasing to be on our guard against his failings. Thus having lost his hold on revealed religion, and having no knowledge of the real conditions of other times, least of all of those middle ages, whose monuments he loved so well, he failed to grasp the supreme importance in economics of family life, and the great functions of the Christian Church, and was thus thrown back wholly on the State as the one engine of reform. So both the religion and the family fall under the heel of the Civil Power, to whose functions he assigns no limits, and to whose wisdom he surrenders the control not only of education but even of marriage; thus becoming a State Socialist. Again, although he saw clearly the true nature of rent and interest and how dividends were but one form of them, he failed

to see clearly their justification; and confounding them with the iniquitous gains of usury, denounced both indiscriminately, no wiser than the liberal economists who justified both indiscriminately. Again, he failed to understand the rehabilitation of rough manual labour by Christianity, or to learn the lesson of Bethlehem and Nazareth; he confounds physical dirt with moral defilement, and thus is troubled on whom to lay the performance of needful rough and dirty work, like that of stokers, miners, or scavengers. So, too, he exaggerated the evils of division of labour and machine production; while his lack of real knowledge of facts, whether past or present, led him to make naive Utopian proposals that discredited his entire work, and to indulge in definitions as arbitrary and verbal discussions as idle as those of the orthodox economists. And his teaching displays various contradictions, such as the emphasis laid (and well laid) on the functions and responsibilities of the rich, and yet the destruction of the rich, by declaring rent and interest unlawful.

But his failings, many of which were only occasional, must not obscure the fundamental truths of his teaching, or the glory of being a torch-bearer in an age of mental darkness.

The student may consult the excellent article by F. J. Stimson on Ruskin in the (American) *Quarterly Journal of Economics*, July, 1888; an article by the present writer in the *Economic Journal*, March, 1898; and above all, though with some reservations, the volume by Mr. J. A. Hobson,

John Ruskin, Social Reformer, 1898. Mr. Hobson rightly notes that Ruskin's teaching stood not one but two removes from the economic teaching current in his day. (p. 74.) For he rose, not merely, as was done later by Jevons and the Austrian school, from a mere quantitative to a qualitative estimate of goods, and made economics psychological; but rising higher, passed to the notion of true welfare as all-important, and the moral estimate of goods; and thus made economics ethical.

§ 9. **Modern Schools of Economists.**—It only remains to add a few words on the principal modern schools of economists. Classification is indeed difficult because of the great variety of individual opinion. Thus the *Abstract* or *Hypothetical School* agree in making economics quite distinct from ethics, in using the method of hypothesis, and in professing to treat the getting and spending of wealth as phenomena that can be studied separately and in isolation. (cf. Hobson's *John Ruskin*, 67—76.) But agreeing in these points, they differ in others, notably in their attitude towards the old orthodox school, some being severe critics of that school, others apologists. Many of them are *optimists*, painting the present in rose colour and the past in sombre grey: a result of their great antagonism to the *pessimistic* socialists. A conspicuous group among the abstract economists is the *Austrian School*, who have done good service as acute critics of their predecessors and of the theory of value; but who have also given occasion, in Europe and America, to fruitless discussions, frequent misunderstandings,

and the manufacture of formulas that render even the simplest things difficult. Truly their work, like that of the economists forty years before, can be called "the weighing of clouds and the portioning out of shadows." (*Munera Pulveris*, § 34.) Finally, many of the abstract economists make great use of *mathematics*, both for reaching and expressing their conclusions; and in this they are fully justified, always assuming their point of view, and the unreal, unspiritual world with which they deal, wherein all can be and all ought to be reduced to figures and comprised in formulas.

Two other very different groups of economists have already been sufficiently described, namely, the Socialists and the *Historical School*. Here let us only add that though both are in general rightly inclined to combine economics with ethics, their ethics are often so defective as to make them more radically opposed to the Christian family and Christian State than the abstract economists.

Another group of economists, though not to be called a school, are the *eclectics* or those who seek the truth on no fixed principle, and thus hold contradictory doctrines without seeing their incompatibility. Now, in an age of transition and intellectual anarchy many of the best writers are likely to be eclectics. Thus, always omitting any living economists, we may class as eclectics three of the leading economists of the nineteenth century in the three separate countries of Germany, Italy, and America, namely Wilhelm Roscher, Luigi Cossa, and Francis Walker, all of whom in their practical teaching were often in happy contradiction with various economic theories that appear in their books. And a fourth writer may perhaps also be set down as an eclectic our own Jevons. Unhappily the trammels of his utilitarian philosophy, which his premature death left him no time to cast off, misled him to look on economics as the calculus

of human satisfactions. Else he might have done a great work; and in fact was a promoter of humane legislation in contradiction to economic liberalism, besides exposing the delusive character of the orthodox Ricardian theory of value, and the need and importance of a theory of consumption.

Lastly, let us name the *Christian Ethical School*, a part of the revival of Christian philosophy in the second half of the nineteenth century, and whose claim is to possess entire the truth which the other schools or groups possess only in fragments; to be alone consistent with the whole of the observable phenomena, not merely with a part; and to be alone able to give the counsels that are of value for averting the decay and the convulsions that threaten us. For if the Christian family and Christian principles are driven out, two spectres will quickly stand knocking at our doors: one, the disorganised, unhappy, and sterile family; the other, the desperate and unprincipled civil strife for riches and power. And we can dismiss the objection that it is unscientific to mix up economic discussions with theology. For precisely the questions of how men are to get their living, and of how families and nations are to continue their existence, are inseparably bound up with the moral and religious dispositions of the workers, of the parents, and of the citizens. This has been shown in the chapters, among others, on the productive capacity of man, on family life, on national growth and decay, and on riches and poverty. And if it is true that the evils of a society once Christian can only be cured by a return to the Christian life and to

Christian institutions (*revocatio vitæ institutorumque christianorum*), then to make a pretence of knowing nothing about this most pertinent fact and to ignore the significant lessons of history, seem to be an unscientific disregard of evidence. Let us rather proclaim in the name of science that the social question is by pre-eminence a religious question, and that without the aid of religion, no solution of any avail is to be found.

APPENDIX.

A. To p. 25.

Notice that this use of words has been upheld by Mr. Cannan as a dogma of science, and thus he treats the distinction of industrial and non-industrial, set forth in this book, as an error in theory. (*Economic Journal*, Sept. 1901, p. 381.) But then, to take two instances out of many, such authorities as Dr. W. Cunningham would be talking nonsense when he (luminously) contrasts the expenditure of Pericles on magnificent buildings with productive expenditure (*Western Civilization*, 1898, Vol. I. pp. 119—121); and Sir Horace Plunkett would be talking nonsense when he expounds to us how the whole working of the Raiffeisen Banks depends on learning "the difference between borrowing to spend and borrowing to make," and on recognizing what is "a really productive purpose." (*Ireland in the New Century*, 1904, pp. 196, 198.) In practice the line between industrial and non-industrial is drawn by every man in the street; and thus the present author, desiring to keep economic terminology as close as possible to reality, rejects Mr. Cannan's use of terms, not as an error, but as an inconvenience. And the old objection that we can draw no exact line between production and consumption, between industrial and non-industrial, is to be put aside as sophistical: we

might as well object to a line between honest and dishonest commissions, or between fair and exorbitant demands, or between reasonable and unreasonable compensation. It is a familiar fallacy to attempt greater precision than the subject matter allows; and our courts of law daily effect substantial justice by drawing the very lines declared to be impossible.

B. To p. 65.

The term *Law of Constant Return* is used by Professor Marshall for the case where "the action of the laws of increasing and diminishing return are balanced . . . and an increased produce is obtained by labour and sacrifice increased just in proportion." (*Principles of Economics*, 1898, p. 398.) This constancy is seldom found for short periods, and is rather applicable to those long periods implied by the expression secular equilibrium used in the text, pp. 64 and 92.

C. To p. 93.

See the lucid discussion on progress and its complications in the third volume, published 1901, of Professor Nicholson's *Principles of Political Economy*, Book IV. ch. i.

D. To p. 111.

On the importance of the restoration of small farms in England see the two large volumes of Mr. Rider Haggard's *Rural England*, 1902; also R. Winfrey in the *Economic Journal*, June, 1906; and on the possible increase in productive power, Prince Kropotkin's somewhat optimistic little book, *Fields, Factories, and Workshops*, 1901. For the absolute and relative growth of farms in Germany, with an area of 5 to 50 acres, see Professor

W. J. Ashley, *German Working Classes*, 1904, pp. 63—72. For peasant farming in Denmark and its great advance, see Erik Civskov in the *Economic Journal*, Dec. 1903, pp. 645—653.

E. To p. 130.

Mr. W. W. Carlile, in the *Economic Review*, April, 1903, pp. 253—255, marks the weakness of this assumption of homogeneity of goods, and the weakness of the further assumption that the modern producer sells his produce because of its diminishing utility to himself. This utility to himself never enters his mind. He produces to sell or to get payment for his work. In fact Böhm-Bawerk has to concede that the marginal utility of a man's own products is usually at zero; and this is fatal to his theory. Let me add to Mr. Carlile's criticisms, that the abuse of the theory of marginal utility shows the proneness of abstract economics (*infra*, p. 659, 660) to play with shadows instead of facing realities.

F. To p. 151.

A tardy recognition of this key position for attacking the housing problem, is to be found in Germany, and a care for the decent housing of the workpeople urged as a requisite for the erection of any *new* factory. (W. H. Dawson, *The German Workman*, 1906, p. 103.) On what can actually be done, see the many examples in Europe and America collected by Mr. Budgett Meakin, *Model Factories and Villages*, 1905.

F[1]. To p. 188.

The Marquesa Islanders fell through fear of over-population into depopulation and decay: the old storage

pits, fishponds, and irrigation were abandoned; an unholy prudence acted as a check to production even more than to population, and perpetuated the very evils it was meant to hinder. (See R. L. Stevenson, *In the South Seas*, edit. 1900, pp. 22—44.)

G. To p. 193.

The public is now at length aroused to the dangers of a declining birth-rate; and the joint paper by Dr. Newsholme and Dr. Stevenson, read before the *Royal Statistical Society* in December, 1905, published in the Society's *Journal* for March, 1906, and previously summarized in the *Nineteenth Century* for February, fairly states with medical precision the facts and antecedents.

H. To p. 251.

The progress of combinations in all parts of the globe continues to be a characteristic feature of our times, and renders obsolete the doctrines of wages and prices based on the assumption of the prevalence of free competition, or of its tendency to prevail. The actual tendency is the very reverse. See various articles in the *Economic Journal*, notably September, 1902, pp. 347—366, by Mr. H. W. Macrosty, and in the same number, pp. 316—319, of an article on Free Trade and Protection, by Mr. L. L. Price. See also Professor Smart on Industrial Trusts in the *Journal of the Society of Arts*, January, 1903, and for the United States the collection of articles on *Trusts, Pools, and Corporations*, edited by Professor W. Z. Ripley, Boston, 1905. In Germany, combinations under the name of "cartels" have become highly efficient instruments in the battle of trade. See for the working methods of the German electrical cartel

the *Times Engineering Supplement*, 22nd August, 1906. See also for one kind of combination or monopoly the small text-book by W. M. Acworth, *Elements of Railway Economics*, 1905.

J. To p. 301.

Mr. Inglis Palgrave, in the *Journal of the Statistical Society*, March, 1905, calculates that in the preceding thirty years the aggregate losses to landowners capital, and to farmers capital and profits, amounted to sixteen-hundred million pounds.

K. To p. 302.

Under this head of valid grounds for protection comes the liability to "dumping." This means that some home industry, like the steel manufacture in England, is attacked by the importation and sale of foreign steel at mock prices which may not even cover the costs. The home buyers of steel gain by the low prices, and the home manufacturers of steel lose; but the gain is less than the loss; because in a year or two the former prices of steel may be restored, the temporary advantage of the buyers all gone, and meanwhile an irreparable loss inflicted on manufacturers in the shape of deterioration of unused machinery, dispersion of their workmen, and perpetual discouragement either to undertake new works or to fit up old works with new machinery, when they are liable at any time to have their market once more disturbed by the importation of steel at mock prices.

It may be asked, how can the foreigner be so foolish or so spiteful as to offer goods below cost price? It can be replied that the case is one neither of folly nor of spite, but of self-interest. For two conditions of

much of modern industry are an incentive to practise "dumping:" first that the manufacturers are in combination and the prices (as of steel in America) monopoly prices (*supra.* pp. 246—249); secondly the machinery (fixed capital) employed in the industry is so costly and elaborate (as in the steel industry) that to stop producing and to leave the machinery idle, is an appalling loss. Fortify the first condition by a protective tariff (as a duty on steel) that prevents outsiders underselling the monopolists, and the case is complete.

All these conditions are said to be present in the manufacture of steel in America. This granted it follows that if the demand for steel in America suffers a temporary diminution, it is to the interest of the producers neither to lower the price in America, nor to reduce production, but to produce as much as before, and to export the surplus which is unsaleable at home, "dumping" it for example upon England or India even below cost price, and making up for their losses on these sales by the continued high prices at which they can sell in America. Let some figures illustrate this possibility. Suppose the American monopolists were selling annually 100 units at £5, their annual receipts would be £500. But if the American demand at that high price declined to 90 units, the monopolists might raise the demand to its old level by lowering the price (say) to £4 per unit. But then their receipts would only be £400; and they consult their own interest better if they keep up the old prices; for though they can sell only 90 instead of 100 units, their American receipts will be £450; while the surplus 10 units, which they still produce lest their workmen and machinery be unemployed, they "dump" somewhere, say upon England or India, at any price they can get. If they can only get half-price for this surplus their total receipts will be £475, and they

have neither spoiled their home market nor damaged their productive forces. "Dumping" is, in fact, only an improved modern form of the old Dutch merchants' plan of destroying part of the spice crop if the spice market was in danger of glut. But as the practice can threaten an existing industry, there is a valid ground for so much protection as will render the threat inoperative. See W. J. Ashley, *The Tariff Problem*, Second Edition, ch. iv., 1903.

L. To p. 310.

The famous manifesto of fourteen professors and lecturers in Political Economy, that appeared in the *Times* and other papers on August 15th, 1903, and was reprinted in the *Economic Journal* for September (pp. 446—448), if it merely denounced the proposed renewal of protection in the United Kingdom, would merely have been a weighty expression of opinion on a matter of practical policy. But whether all the signatories realized the fact, or not, the manifesto went further, and from the point of view of abstract or hypothetical economics (*infra* pp. 659, 660), *indiscriminately* denounced protection, *indiscriminately* extolled free-trade, and with an amazing disregard of real life totally ignored the giant spread of combinations, and assumed a world in which all prices and all wages depended on the free competition of individuals.

The student of this controversy is advised to read the small volumes by Professor W. J. Ashley, *The Tariff Problem*, Second Edition, 1904, and by Dr. W. Cunningham, *The Rise and Decline of the Free-Trade Movement*, Second Edition, 1905; then in the *Economic Journal*, the articles by Mr. L. L. Price, on Free Trade and Protection, September, 1902 (before the great controversy had begun), and on Fiscal Policy, December, 1903, and

Professor Ashley on The Argument for Preference, March, 1904; finally, to see at their best the arguments for free trade, Professor Nicholson's *Principles of Political Economy*, Book III. ch. xxviii., and Book V. ch. xiv.

M. To p. 317.

Much well digested information on the actual historical course of prices is given in the third volume of Professor Nicholson's *Principles of Political Economy*. Book IV. cc. iii. and iv.

N. To p. 393.

It has been calculated in the *Times*, 25th December, 1903, in a leader on the Report of the Inspector General of Bankruptcy, that in the previous ten years the loss through misdirected or unsuccessful company enterprise had been over £200,000,000.

O. To p. 397.

Consult two articles in the *Economic Journal*, by Mr. H. W. Macrosty, September, 1903, on The Grain-milling Industry, and September, 1905, on Speculation in the Iron Trade.

P. To p. 400.

This shocking scandal remains in 1906 still unabated, degrades the County Courts to be debt-collectors, is a grave incitement to unthrift by making easy the way to borrowing and extravagance, besides fostering the buyers of book-debts, the packman, the travelling canvassers, the small moneylenders, and other harpies who prey upon the working class. See the article in the *Times*, 31st January, 1903, on the previous Report of the

County Courts, and the letters 24th and 28th August, 1906, by "Jurist," by "A County Court Judge," and by the Secretary of the Humanitarian League. The number of debtors imprisoned in 1905 was no less than 11,405, of whom 7,851 served their full time in prison.

Q. To p. 537.

In view of the Australasian laws mentioned above p. 504, a *fourth* head of factory enactments must be added, namely, regulation of the wages of work-people. For factory legislation in general see *A History of Factory Legislation*, by Miss H. B. Hutchins and Miss A. Harrison, 1903, a work that has filled up a great gap in English economic literature, contains a bibliography of some thirty-five pages, and proves, if it needed proving, the competence of women in economic research.

R. To p. 542.

We cannot give the name of a standard work to *The History of the English Poor Law*, by Sir George Nicholls, edited in two volumes by his son-in-law, Mr. H. G. Willink, 1898. For Nicholls was himself in great part the author of the New Poor Law of 1834, and a prime agent is not a good witness. He was full of the individualist and religious prejudices of his time, and his pre-Elizabethan history is but a caricature. A third volume by Mr. Thomas Mackay, bringing up the history of the Poor Laws to 1899, is also wrttten from the extreme individualist standpoint, and is fatally damaged by ignoring workmen's insurance and combinations. For more trustworthy information see *Before the Great Pillage*, by Dr. Augustus Jessop, and *The Early History of English Poor Relief*, by Miss E. M. Leonard, Cambridge, 1900,

and Dr. W. Cunningham's classical work *The Growth of English Industry and Commerce*, Vol. I. Edit. 1905, Vols. II. and III., Edit. 1903. Also Mr. B. Seebohm Rowntree's *Poverty*, Fifth Edition, 1903.

S. To p. 561.

For unemployment in general see Percy Alden, *The Unemployed*, 1905, especially pp. 58—65, on insurance against the evil. For German insurance against "worklessness," see W. H. Dawson, *The German Workman*, ch. iii. The establishment in the United Kingdom of reformed "labour-bureaux," in close intercommunication and connected with the municipalities and the trade unions, so as no longer to be scattered registry offices, but rather national or provincial clearing houses for labour, would stop up one source of unemployment, and has been rendered much easier by the spread of the telephone.

T. To p. 621.

It has been calculated that in France to buy shares or stocks to the value of £1,200 cost £2; but to buy land of the same value costs £80, not to speak of lawyers' fees. Hence in France, and probably in many other countries taxes on contracts (or stamp duties) press unfairly on the holders of land.

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